THE STATE AND INCOME REDISTRIBUTION:

A STUDY OF THE SOCIAL WAGE AND TAXATION IN NEW ZEALAND 1949 - 1975

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ABSTRACT

This thesis examines the role of the state in redistributing income between social classes in New Zealand during the years 1949-1975. It applies an innovative methodology, developed by E. Ahmet Tonak, to a set of data drawn from New Zealand's national accounts and estimates a quantity labelled 'net-tax', defined as the taxes that the working class cede to the state less the expenditure that the working class receives from the state in the form of a social wage. A detailed theoretical discussion precedes the empirical analysis. Insofar as Tonak's method requires that the social wage (the portion of state expenditure consumed by the working class) be identified as an empirical quantity, the argument that all taxes, and hence all state expenditures, originate from surplus value is confronted. The views of the main representatives of this contemporary school of thought are subjected to detailed scrutiny. They are rejected in favour of the views of a school which considers the portion of taxes funding the state expenditure that constitutes the social wage to originate in 'wages'. A model which theoretically 'grounds' the comparison of taxes paid to state expenditure received, effected in the remaining chapters of this study, is then formulated. In the empirical analysis, the empirical referent of the 'net-tax' concept is calculated for the years 1949-1975. The net-tax data set is then used to construct a transference ratio, which indicates the degree and direction of income redistribution effected by the state. The main finding to emerge is that, in all but one of the twenty-seven years surveyed in this study, the working class has surrendered more wealth in taxes to the state than it has received back from the state as a social wage. In light of these results, it can be concluded that the welfare state has not materially benefitted the working class in New Zealand. Moreover, insofar as income has consistently been redistributed from the working class to 'non-labour' (the capitalist class and the state itself), the state can be considered to owe the working class a debt in the amount of 3671.26 million (constant 1975) dollars.

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In general, the art of government consists in taking as much money as possible from one class of citizens to give to the other.

Voltaire.

Chapter One: Welfarism on Trial

(1.1) Introductory Remarks

An economic crisis is currently wreaking dramatic changes in the social organization of capitalist societies world-wide. New Zealand is no exception to this pattern; the crisis has asserted itself with a vengeance in this country. Ever since the oil shocks of the early 1970s, and Britain's entry into the EEC, New Zealand has experienced a steady deterioration on almost all economic fronts. The traditional bourgeois economic indicators paint a dismal picture: increasing balance of payments deficits; declining terms of trade; increasing levels of overseas debt; increasing budget deficits; increasing unemployment; a rate of inflation consistently higher than that of our trading partners; and a rate of economic growth consistently lower than the OECD average.

The economic crisis has, in turn, elicited a response from the state in New Zealand. Gone is the social democratic interventionist state; ascendant is the monetarist state, albeit under the auspices of a 'Labour' Government. Since New Zealand's fourth Labour Government came to power in 1984, the state has wrought changes in the fabric of New Zealand society on a scale and at a pace hitherto unimaginable. If the social democratic state had previously tried to 'tame the beast' of capitalism, the Labour Government purposely set out to uncage it. This Government has unleashed economic forces believed by many to have been permanently relegated to the darker days of the pre-Keynesian

era. At its hands, institutions once held to be inviolable are now fielding a succession of attacks. The mixed economy and its concomitant, the welfare state, are two such institutions.

In an attempt to revitalize New Zealand's flagging economy, the Labour Government has dismantled almost every device designed to regulate the allocation of economic resources, leaving the warp and weft of market forces to hold sway, and has effected a number of other equally fundamental economic reforms in accordance with the indigenous application of monetarist dogma informing its policies. Numbered amongst the most significant reforms are: the abolition of subsidies and tax concessions to the agricultural sector; reduction of tariff barriers and removal of import controls protecting industry from foreign competition; introduction of a floating exchange rate; adherence to a tight monetary policy; deregulation of the financial sector; corporatization and privatization of large segments of the state sector itself; the imposition of a goods and services tax (GST); and tax-cuts to the rich and big business.[1] The net effect of these reforms is an attenuation of the state's sphere of influence: the 'unmixing' of the 'mixed economy'.

In accordance with the imperatives of monetarism, the Labour Government's attacks on the welfare state have been manifested in the form of policies intended to squeeze welfare spending. The Government's efforts in this area include: the taxation of welfare

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[1]B. Roper, 'Thatcherism in the South Pacific?', Arena, no. 84, 1988, pp.26-28.

benefits; the introduction of the 'user-pays' principle in education; the proposed introduction of 'work tests' for solo parents and invalids in order to restrict their access to welfare benefits; insufficient increases in health expenditure, which have forced hospitals to operate within restrictive budgetary constraints; harassment of welfare beneficiaries suspected of fraud; 'targeting' of unemployment benefits as opposed to them being universally provided; and as from April 1 1990 welfare benefits will be indexed to increases in the levels of prices or wages, depending on which of the two is the lower - which, given the condition of the labour market at present, will lead to cuts in the real levels of benefits.

For those who consider the principles of social democracy (among which welfarism figures prominently) to be sacrosanct, these developments are all the more vexatious in that a *Labour* government is administering the monetarist tonic to this country's ailing economy. The transmutation of an erstwhile social democratic government, however, is by no means a phenomenon unique to New Zealand. As Clarke points out, also in Southern Europe and Australia:

> social democratic governments have taken it upon themselves to carry through the monetarist revolution, in the guise of a 'politics of austerity', while social democratic parties around the world have capitulated to a 'new realism'.[1]

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[1] S. Clarke, Keynesianism, Monetarism and the Crisis of the State. Aldershot, Edward Elgar, 1988, p.2.

Although the global demise of social democracy is not wholly unexpected by Marxists, it raises a number of crucial issues that demand their attention. Foremost among these is what attitude should be taken to attacks on the welfare state? Should the attacks be warded off? Or should the welfare state's opponents be allowed to consign it to the dust-bin of history?

Undoubtedly, the reaction by Marxists must ultimately be grounded in an understanding of the extent to which the state is able to override the economic contradictions intrinsic to capitalism by means of welfarism and Keynesian interventionism. Whilst the very crisis we are at present experiencing suggests the state is *unable* to fulfil this role, even if the fate of social democracy is in the long term sealed, it is by no means certain that in the short term Marxists should allow attacks on New Zealand's welfare state to proceed unhindered. A conscious decision must be taken either to defend or not to defend the welfare state, but the decision must be just that: conscious, and based on sound empirical evidence. After weighing the evidence, it may well be decided that the attacks will not be warded off and that Marxists should focus their political energies elsewhere. But whatever the stance adopted, it must be based on an *empirical* examination of the historical 'track record' of the welfare state.

This study aims not to specify what the 'correct' reaction should be; as the province of political organizations such a task necessarily falls outside the jurisdiction of an academic thesis. Rather, it attempts the more limited task of furnishing evidence with which to set the reaction

by Marxists on a surer footing. In light of this aim, at least part of the evidence to be taken into account is the extent to which the welfare state has provided palpable material gains to the working class. It is all the more important to subject to scrutiny the claim that the welfare state has enhanced wage-earners' living standards, insofar as social democrats use just such an argument to challenge the Marxist theory of the state. While it may be claimed that the impending demise of social democracy renders such assertions invalid, to dismiss them outright would not only be dogmatic, but downright unwise, insofar as some Marxists echo their claim that the welfare state has improved the material position of the working class. On the latter count alone, these matters warrant further consideration.

(1.2) Delimitation of Problem

That the bourgeois state is merely an expression of the class power of the bourgeoisie is an axiom fundamental to Marxism. For Marx, the state is no more than a medium through which the bourgeoisie perpetuates and bolsters its class power.[1] This is not to deny that the precise nature of the relationship between the state and the ruling class has long been at the heart of debate within Marxism. For instance, in attempting to explain *how* the state acts in the interests of the capitalist class, Nicos Poulantzas assigned priority to the 'relatively autonomous' state in shaping civil society, and class relations therein, and in doing so

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[1]Marx writes: "[the state] is no more than the form of organization which the bourgeoisie necessarily adopt . . . for the mutual guarantee of their property and interests." Marx and Engels on Economics, Politics and Society, ed. J. Elliot. Santa Monica, Goodyear Publishing Company, 1981, p.344.

almost reversed the polarity established by Marx.[1] Despite such differences, however, the classic and contemporary Marxist conceptualizations of the state possess a singular unity: they concur that in the long run the state acts in the class interests of the bourgeoisie.

A decisive shift of the state into new spheres of operation during the long boom experienced globally by capitalist societies posed a fundamental challenge to the way in which Marxists conceptualize the state. The principal features of this change in state function are succinctly summarized by Bullock and Yaffe:

> In all the major capitalist states today, a large proportion of the Gross Domestic Product, and in some cases the largest, is administered by the state itself. This development has proceeded throughout the post war boom - appearing as the growth of the so-called 'mixed economy' and the 'welfare state'. It finds its rationalization in the Keynesian notion of the state as mediator of the 'uncontrolled' nature of capital. Its political representatives are the Social Democrats.[2]

Social Democrats allege that the state, an institution Marx once labelled "only an excrescence of society", underwent a qualitative transformation consequent upon these extensions of its sphere of operation. The emergence of the 'welfare state' is said to refute the Marxist notion of the capitalist state as the institution through which the capitalist class exercises its political power. Workers purportedly

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[1]N. Poulantzas, Political Power and Social Classes. London, New Left Books, 1973. The primacy Marx accorded civil society (the realm in which classes are constituted) *vis-a-vis* the state marks one of his major advances over Hegel.

[2]P. Bullock and D. Yaffe, 'Inflation, the Crisis and the Post-War Boom', Revolutionary Communist, v.3/4, November 1975, p.33.

developed a material 'interest' in the state by virtue of the role of state welfare expenditure in enhancing their living standards.

In New Zealand, social democracy found its initial expression in the policies of the first Labour Government. Through a range of interventions that created incentives and restrictions for the allocation of resources, the state undertook new *economic* functions.[1] Its new functions in the realm of *social welfare* involved the redistribution of income by means of fiscal policy, and the provision of 'free' and of subsidized social services, and monetary benefits.[2] These latter changes fostered the social democratic belief that the first Labour Government launched a "workers' state".[3]

It was noted in the introduction that social democracy is presently meeting its fate at the hands of the fourth Labour Government, to wit the economy is becoming less 'mixed' and the state is shedding its welfare function. To the end of formulating a Marxist response to this latter development, the need to empirically ascertain whether the welfare state has provided palpable gains to the working class is heightened by the global claims of some Marxists that the welfare state

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[1]R. Chapman, 'From Labour To National', The Oxford History of New Zealand, ed. W. H. Oliver. Wellington, Oxford University Press, 1981.
[2]E. Hanson, The Politics of Social Security. Auckland, Auckland University Press, 1980, pp.41-98. It must be noted, however, that the 'welfare state' can be dated to the legislation introduced by the Liberal Government in the late nineteenth and early twentieth centuries. See: K. Sinclair, A History of New Zealand. Harmondsworth, Penguin Books, 1980, pp.170-209.
[3]B. Curtis, 'From Socialism To Opportunism', New Zealand Monthly Review, no.317, April 1989, pp.13-18.

has indeed benefitted the working class - albeit in a manner assimilating workers into capitalism.

While Marxists generally accept that welfarism was one of the key ingredients in the social democratic 'class compromise' at the heart of the long boom, some go so far as to suggest that that historic compromise was premised upon real material gains accruing to the working class. For instance, Lash and Urry argue that increased welfare expenditure was central to the 'corporatist solution' which 'bought off' the working class, necessarily implying that the welfare state had played a part in materially improving the condition of the working class.[1] Central to what another author graphically labels the framework of "institutionalized class collaboration" at the heart of the Keynesian Welfare State

> was the increasingly systematic and pervasive involvement of the state, directly and indirectly, in the regulation of the reproduction of the working class through the wage, social insurance and social security, on the basis of a generalized expectation of rising wages, a guaranteed minimum subsistence, and a political commitment to full employment.[2]

Common to all such arguments is the notion that welfarism was an integral part of the post-war package of measures implemented by the state which, through enhancing or at least shoring up wage-earners' living standards, "bought off" or fostered the "class collaboration" of

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[1] S. Lash and J. Urry, The End of Organized Capitalism. Madison, University of Wisconsin Press, 1987, p.234.
[2] Clarke, p.275.

the working class. As Clarke observes:

> the socialization of consumption was the liberal alternative to the socialization of production as the means of securing the social and political integration of the working class into the capitalist order.[1]

However, it is not at all self-evident that the socialization of workers' consumption benefitted the working class *as a whole*. In other words, some segments of the working class may well have been 'bought off' at the expense of others.

To assess the effects of the welfare state on the working class as a whole, it is not enough merely to point triumphantly at increased welfare spending, as Marxists even of Therborn's calibre have occasionally found themselves doing; the taxes paid by the working class must also be taken into account.[2] More specifically, it is necessary to study empirically what the working class receives from the state compared to what it pays in. A seemingly simple enough proposition, yet few Marxists have bothered to consider it.

Surprisingly enough, in a treatise on Marxist economic theory, Gouverneur focuses upon the preceding point:

> In practice, products for collective use, intended in principle for *all* members of society, are financed by deductions from *all* incomes (National Insurance contributions and taxes, paid by

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[1]Clarke, p.272.

[2]G. Therborn, 'The Prospects of Labour and the Transformation of Advanced Capitalism', New Left Review, no.145, May-June 1984, pp.26-29.

> wage-earners and capitalists alike). Hence the question: does the wage-earners' share in the *financing* of collective goods and services correspond to their share in the *consumption* of these goods and services?[1]

His answer to this question, however, is not as helpful as the manner in which it is posed. Gouverneur simply assumes that wage-earners finance the same proportion of collective goods and services as they consume. In his own words: "the wage-earners themselves finance their own (apparently 'free') collective consumption (the consumption which they do not 'purchase' in the strict sense)."[2] Under this assumption, the material position of the working class is neither enhanced nor worsened by the actions of the state. While this assumption suffices for Gouverneur's purposes (an exposition of Marxist *theory*), insofar as there is no reason why it should hold *empirically*, it is inadequate for ours.

If the share of collective goods and services (to which I will subsequently argue monetary benefits must be appended) workers consume is not proportional to the taxes they pay, some form of redistribution of wealth between the classes must necessarily occur. Logically, there are two possible scenarios:

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[1]J. Gouverneur, Contemporary Capitalism and Marxist Economics. Oxford, Martin Robertson, 1983, p.69.
[2]Gouverneur, p.69.

EITHER:

Wage-earners contribute *more* wealth in taxes to the state than they 'consume' in collective goods and services, and monetary benefits. *(Scenario One)*

OR:

Wage-earners contribute *less* wealth in taxes to the state than they 'consume' in collective goods and services, and monetary benefits. *(Scenario Two)*

Each scenario is accompanied by a specific set of implications. In *Scenario One*, welfare expenditure received by wage-earners is funded entirely from their own taxes, the state merely redistributing income *within* the working class to the value of the welfare expenditure received. Furthermore, the state effects a redistribution of income from the working class to the capitalist class (and/or the state itself) in the amount of the difference between taxes paid by wage-earners and the welfare expenditure they receive. In *Scenario Two*, the welfare expenditure received by the working class is funded partly from the taxes paid by the capitalist class. Thus, the state effects a redistribution of income from capitalists to wage-earners.

For the welfare state to have enhanced the consumption and income levels of the working class as a whole, Scenario Two must obtain: wage-earners must receive more from the state then they contribute to it. In

other words, the state must redistribute income from the capitalist class to the working class. Indeed, the situation depicted in Scenario Two is one of the perennial claims made by social democrats, according to whom a beneficent state acts to enhance the living standards of the working class. Subjecting the preceding propositions to an empirical test will therefore simultaneously afford a test of one of the fundamental tenets of social democracy.

Similarly, if Marxists are to claim that the welfare state has enhanced the living standards of the working class *as a whole* (and some such as Therborn come perilously close to this), they commit themselves to just such a view, despite pointing to the deleterious effects of welfarism in assimilating wage-earners into capitalism. If it is found that Scenario One holds, then the state has 'bought off' the working class with increased welfare expenditures using wage-earners' own money. In other words, wage-earners will have funded their 'socialized consumption' *themselves*.

To establish which of the preceding scenarios holds, it is necessary to compare the amount of income workers receive from the state to the taxes they pay to the state.[1] Although this imperative may appear to be self-evident, surprisingly few Marxist studies have attempted to quantify in precise empirical terms the relationship between the state expenditure wage-earners receive and the taxes they pay. An empirical

[1]Although it is unlikely to obtain, Gouverneur's hypothesized situation, in which wage-earners receive precisely the same amount of income from the state as they pay in taxes, is nonetheless possible and hence can be regarded as a third 'scenario'.

test of what appears to be an elementary set of propositions has certainly never been carried out before in New Zealand. This is not to say that there have not been studies of income redistribution; rather, most of these studies have other axes to grind. It will come as no surprise that the bourgeois literature in this area typically does not focus its attention at the level of social classes.[1] In this respect, the criticism Freeman incisively levels at 'conventional' (i.e. bourgeois) poverty studies equally applies to bourgeois income redistribution studies: "[they] concentrate on the differential effects of state policy on households of different wage levels. The quantity of income, rather than its source, is considered decisive."[2] This trend in research is illustrated well by some of the most recent studies by bourgeois scholars in New Zealand.[3]

Marxist studies are similarly lacking. On the one hand, Bedggood compares taxes paid and expenditure received by the working class as a whole, but does so only in general terms.[4] In a neo-Weberian study, Pearson and Thorns do much the same.[5] Both studies suggest that income has not been redistributed from the capitalist class to the working class (implying that Scenario One obtains), but neither affords

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[1]See: G. Westrate, 'An Estimate of the Magnitude of Income Redistribution in New Zealand', The Economic Record, April 1957, pp.97-102. W. Rosenberg, A Guidebook to New Zealand's Future. Christchurch, Caxton, 1968, p.103.

[2]A. Freeman, The Effect of the State on the Living Standards of Wage-Earners in Britain 1969-1984. Unpublished Paper, n.d., p.2.

[3]G. Buurman, 'Issues on Social Welfare and Economic Equality' and 'Social Welfare Benefits and Income Distribution in New Zealand', The New Zealand Economy: Issues and Policies, ed. S. Birks and S. Chatterjee. Palmerston North, Dunmore Press, 1988.

[4]D. Bedggood, Rich and Poor in New Zealand. Auckland, George Allen and Unwin, 1980, pp.95-113.

[5]D. Pearson and D. Thorns, Eclipse of Equality. Sydney, George Allen and Unwin, pp. 99-104.

a *precise* empirical quantification of the income-flows in question. Hence the preceding scenarios are not subjected to a rigorous empirical test.

Then again, how to precisely quantify the impact of the welfare state in redistributing income between social classes is by no means obvious. Not only are there considerable difficulties associated with the task of empirically estimating the portion of state expenditure that accrues to workers, thorny problems are encountered in using the loaded term 'welfare state'. Use of this term to denote the change in state function identified previously is not without its problems. As Gough points out:

> the very term 'welfare state' reveals the ideological nature of most writing about it. Put another way, the object of our study is defined in terms of a theoretical tradition which we reject.[1]

The term 'welfare state' is entangled in bourgeois conceptual categories to the degree that it has resisted even the attempts of some bourgeois theorists to extricate it.[2] Moreover, Marxist studies of the 'welfare state', insofar as they do surmount problems of definition, typically focus on welfare expenditure as a whole.[3] This approach sheds no light on the problem at hand. The focus of this study must be narrowed to the

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[1] I. Gough, The Political Economy of the Welfare State. London, MacMillan, 1979, p.3.

[2] Such semantic difficulties are evident in the classic work of R. Titmuss.See this author's: Essays On 'The Welfare State'. London, George Allen and Unwin, 1958.

[3] The most recent example in the New Zealand literature is: J. Martin, 'The Modern Welfare State and Expenditure in New Zealand', State Papers. Department of Sociology, Massey University, Palmerston North, 1982.

portion of welfare expenditure received by the working class: the *social wage.*

(1.3) A Definition of the 'Social Wage'

The social wage has been variously defined as monetary benefits received by workers, monetary benefits *and* social services received by workers, and some even commit the error of using the term synonymously and interchangeably with 'welfare state' - returning the debate once again to the quagmire of bourgeois categories.[1]

Under Gough's definition, for instance, the 'social wage' denotes only the *monetary benefits* that accrue to the working class. Social services such as education and health (or, as he puts it, 'benefits in kind') are labelled 'collective consumption'. In support of this distinction he argues:

> cash benefits augment money income and are used to purchase *commodities.* State-provided services are directly consumed as *use values*: no money payment is made as with the consumption of commodities.[2]

But this definition is arbitrary, based as it is more on the semantic connotations of the term 'wage' than on criteria of any real significance. Gough narrowly construes the 'wage' to mean a distinct sum of money

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[1]R. Chernomas offends in this latter regard. See his: 'Is Supply-Side Economics Rational For Capital?', Review of Radical Political Economy, v.19, no.3, 1987, pp.1-17.
[2]Gough, p.116.

either mediated by a market (the labour-market in the case of the direct wage) or taking the form of a transfer payment (the 'cash benefits' in question) with which wage-goods are purchased.

He forgets, however, that state-provided collective commodities that are "directly consumed as use-values" are themselves ultimately funded from general taxation in the same manner as cash benefits. In this light, they can be considered "money payments" (Gough's term) returned to the working class in the form of *use-values.* Furthermore, insofar as collective commodities (i.e. social services) play a part in determining wage-earners' consumption levels, there is no reason to exclude them from the social wage.[1] Thus both the monetary benefits *and* social services that accrue to the working class will henceforth be denoted by the term 'social wage'.

It must be noted that this definition is limited to what might be termed the 'state-provided' social wage.[2] It could be argued that direct contributions by employers to employees' social security schemes, redundancy funds and so forth, are part of the social wage. The definition used in this work, however, will restrict the term 'social wage' to the fraction of taxes appropriated by *the state* in providing social services and monetary benefits to the working class.

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[1]Russell includes state expenditure on social services - "subsistence use-values" as he terms them - in the social wage, purporting to follow Gough, when in point of fact the latter theorist omits this element of state expenditure. B. Russell, 'The Politics of Labour-Force Reproduction: Funding Canada's Social Wage 1917-1946', Studies in Political Economy, v.14, Summer 1984, p.46.

[2]This term is derived from Russell's study cited above.

(1.4) Problems in Identifying the Empirical Referent of the 'Social Wage'

It is all very well to claim in theory that the social wage equals the portion of cash benefits and social services accruing to the working class, but in practice how does one decide which portion this is? After all, state expenditure is not differentiated in the national accounts according to the class that receives it. Whilst expenditures such as the unemployment benefit can be readily assigned *in toto* to the working class, expenditures which the capitalist class undoubtedly receives a portion of (health and education for instance) are more troublesome.

Furthermore, the assumption involved in apportioning state expenditure to the working class as the social wage - that wage-earners in some way 'consume' state expenditure - is not at all non-contentious. Take for instance the notion that wage-earners consume state expenditure on education. A large body of Marxist literature suggests just the opposite occurs: the education system, in its capacity as a functional component of the capitalist system (a mechanism of social selection), 'consumes' wage-earners; or rather it consumes working class children, and churns out a future generation of wage-earners as veritable grist to the capitalist mill.[1]

The problems outlined in the two paragraphs immediately preceding, will henceforth be referred to respectively as the 'small' and 'large'

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[1]For instance, see: S. Bowles and H. Gintis, Schooling in Capitalist America. London, Routledge and Kegan Paul, 1976.

problems of estimating the social wage. The first is the problem of assigning *specific components* of state expenditure to wage-earners as the social wage; the second is the very notion that state expenditure can be assigned in this manner (i.e. that wage-earners 'consume' state expenditure). That this latter notion is contentious removes the identification of the social wage's empirical referent from the realms of a purely technical or methodological exercise, and requires that issues of an explicitly 'theoretical' nature be considered.[1]

These issues are by no means only encountered in estimating the social wage. The tensions involved in the large problem of estimating the social wage are a reflection of a broader set of tensions that have long troubled Marxist theories of the state in general. Indeed, as Leonard insightfully remarks:

> All sensitive and careful Marxist writing on the state and on the economy has to walk a tightrope between crude functionalism and starry-eyed voluntarism - at its extreme, between seeing the welfare state as wholly oppressive and seeing it as a bastion of socialism within a capitalist economy.[2]

A response often invoked by Marxists is that such tensions in the realm of theory merely reflect actually existing contradictions in the real world. That such contradictions exist it is certain. For instance, to the

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[1]These labels should not be construed as implying the relative 'size' of the two problems in any strict sense. It will be evident from the discussion in Chapter Three below that the small problem requires almost as much cogitation as the large problem. Rather, the labels chosen reflect that the large problem concerns fundamental theoretical issues that cut to the very heart of Marxism, whereas the small problem concerns issues that are largely methodological in nature.

[2]P. Leonard, 'Editor's Introduction', The Political Economy of the Welfare State, I. Gough. London, MacMillan, 1979, p.ix.

extent that state expenditure on health improves the health of wage-earners, it also plays a part in creating a healthy supply of labour-power for the capitalist system.[1]

For empirical analysis to proceed at all, however, the tension between the notion that workers 'consume' state expenditure and the 'function' of state expenditure within the capitalist system must be circumvented by means of a set of assumptions, 'working hypotheses' if you will, that provide criteria with which to distinguish expenditures accruing to the working class from those accruing to the capitalist class, without regarding all state expenditure as expressly serving the immediate functional requirements of the capitalist system. This approach is neither insensitive nor lacking in care; rather it is *necessary* for empirical research of this type to be carried out.

In light of the foregoing, the 'large' problem will be solved by means of a detailed theoretical analysis locating the social wage and its source of revenue in taxes within the conceptual categories of Marxist economic theory. The 'small' problem will be solved in the course of adopting a methodology to quantify the impact of the state on inter-class income redistribution. It is to identifying such a methodology that I now turn.

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[1]For an insightful discussion of the preceding set of contradictions, see: B. Hindess, Freedom, Equality and the Market. London, Tavistock, 1987, pp.105-119.

(1.5) The Need For a Method

Gauging the redistributive effects of the state in relation to the working class requires a methodology that performs two functions. First, it must supply a procedure to apportion state expenditure to the working class (i.e. to solve the 'small' problem mentioned above), thereby identifying the social wage's empirical referent. Second, the method must juxtapose the social wage in a meaningful way to taxes ceded by the working class to the state, preferably expressing this relation in a single synthetic index or measure of some form. This, however, is a tall order.

Empirical studies of this type by Marxists are rare. While there are a number of purportedly Marxist studies that focus explicitly on the redistribution of income by the state, most do not situate their analyses at the level of the working class as a whole. The work of Drover and of Young is a case in point.[1] Insofar as they do not focus on the *whole* of the working class, these scholars do not confront the issues of estimating the social wage and its comparison to the taxes ceded by wage-earners to the state. By inferring from a limited number of sets of working class individuals, families and so forth, their studies closely resemble

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[1] G. Drover, 'Income Redistribution', Inequality: Essays in the Political Economy of Social Welfare, ed. A. Moscovitch and G. Drover. Toronto, Toronto University Press, 1981. See also: B. Young, 'Taxation and the Capitalist State', in the same volume.

bourgeois analyses of income redistribution such as van Arnhem and Schotsman's.[1]

Macro-level studies of inter-class income redistribution are also notably sparse in the *broader* Marxist literature on the welfare state. An interesting though somewhat esoteric theoretical study that touches on the issue of income redistribution is the work of Wallerstein and Przeworski, but it is of little use for the *empirical* task at hand.[2] For that matter, there is a paucity of empirical work by Marxist political sociologists on the welfare state *per se*. Indeed, Goran Therborn argues that such a literature is only emerging now. In a recent article, Therborn identifies two 'phases' of neo-Marxist political theory; he argues that the first, whose progenitors were Poulantzas and Miliband, failed to adequately confront the welfare state.[3] A body of literature launching the second 'phase', he argues, bears witness to a "1980s renaissance of Marxist political analysis", characterized precisely by an "empirical focus . . . [on] the welfare state".[4] This literature, however,

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[1]C. van Arnhem and G. Schotsman, 'Do Parties Affect the Distribution of Income?: The case of Advanced Capitalist Democracies', The Impact of Parties, ed. F. Castles. London, Sage, 1982.

[2]M. Wallerstein and A. Przeworski, 'Workers' Welfare and the Socialization of Capital', Rationality and Revolution, ed. M. Taylor. Cambridge, Cambridge University Press, 1988.

[3]G. Therborn, 'Karl Marx Returning: The Welfare State and Neo-Marxist, Corporatist and Statist Theories', International Political Science Review, v.7, no.2, April 1986, p.133.

[4]Therborn, p.133. He claims that "a new . . . class theory of politics and states" has recently begun to assert itself, one of the distinguishing features of which is "its inspiring commitment to the working-class movement"(p.133). Foremost among this literature he identifies the work of Korpi. See: W. Korpi, The Democratic Class Struggle. London, Routledge and Kegan Paul, 1983.

is of no assistance in assessing the state's impact on inter-class income redistribution.

The relationship between the welfare state and the economy is a more fertile area of debate, characterized by considerable diversity. According to Rowthorn's 'profit-squeeze' argument, for instance, state welfare expenditure retards capital accumulation, suggesting that the relationship between the capitalist state and society is not nearly as symbiotic as Marxist economists of Laurence Harris's ilk would have us believe.[1] On the other hand, 'functional' arguments such as Moscovitch and Drover's suggest that in the long run welfare expenditure cannot have this effect.[2]

The preceding studies are only the veritable 'tip of the iceberg', the two poles of a debate which has spawned a vast literature largely dealing with agendas other than the state and inter-class income redistribution. Nevertheless, two empirical studies that focus on this issue have been

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[1]B. Rowthorn, 'Late Capitalism', New Left Review, no.98, July-August 1976, pp.71-73. Harris writes: "The relationship between the state and civil society is, in normal times, two-way. In terms of this economy the state in capitalist societies (and others) depends upon the private sector for the taxes and loans to pay its employees and buy resources, but the private sector itself depends upon the state for many of the conditions that enable it to operate: for laws defining and protecting property, for guaranteeing the stability of money, and for regulating competition at the very least"(p.53). L. Harris, 'State and Economy in the Second World War', State and Society in Contemporary Britain: A Critical Introduction, ed. G. McLennan, D. Held and S. Hall. Cambridge, Polity Press, 1984.

[2]They write: "the economic conditions in society are themselves in the last resort determining of social welfare measures in any period of time. Generally, therefore, fiscal welfare measures such as income redistribution, taxation, or social expenses will bolster, or at least not threaten, the accumulation of profits and capital." Editor's Preface, Inequality: Essays in the Political Economy of Social Welfare, eds. A. Moscovitch and G. Drover. Toronto, University of Toronto Press, 1981, p.viii.

drawn from this literature: the first by an American Marxist economist, E. Ahmet Tonak, and the second by Ian Gough in his landmark 'Political Economy of the Welfare State'. The rationale for utilizing Tonak's method, in testing which of the previously identified scenarios obtains in New Zealand, will be outlined by means of a critique of the methodology used by Gough to crudely fashion British national accounts data into a study of the state's impact on income redistribution.

(1.6) How Does Gough's Methodology 'Measure Up'?

In an attempt to understand the impact of taxation and of state expenditure in Britain, Gough constructs some interesting empirical indices to trace "the flows of taxes and social benefits between the state and all 'households' in the economy".[1] To this end, he divides the economy into the state sector and the 'personal' sector, and calculates in several stages the flows of income between the two sectors for the year of 1975. The product of his labours is the discovery that "The net financial result of . . . state intervention [to modify initial incomes] in 1975 was a flow of £5 billion from the 'personal' sector to the state. This contributed to the cost of other items of state expenditure, on arms, infra-structure and . . . on aid to the capitalist sector of the economy."[2] In other words, the 'personal sector' paid £5 billion more in taxes than was received back from the state in the various forms of state expenditure. On the basis of this finding, he concludes: "the state has

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[1]Gough, p.108.
[2]Gough, p.110.

transferred substantially more from the personal sector than it has transferred back via the welfare state . . . ."[1]

Gough's study, although producing results appealing to Marxists, is limited in that the 'personal' sector is in reality divided along the lines of class and must be so treated. He does not determine the extent to which flows of taxes from the 'personal' sector to the state sector derive from capital as opposed to labour, nor does he differentiate those in receipt of state expenditure in this fashion. Hence, he does not actually estimate the social wage (at least not in terms of the definition adhered to in this work).

Gough himself cautions that his study "treat[s] the whole personal sector as a homogeneous unit and do[es] not distinguish the major social classes within it."[2] He notes that his 'temptation' to engage in an analysis taking this distinction into account was curbed by the "amount of extra work" involved. He proceeds to develop an elaborate conceptual model which registers this distinction, but still does not provide any way of *empirically* discerning classes within the 'personal' sector. Nor does he provide any means of empirically identifying the effects of the state in redistributing incomes between classes - only 'sectors'.

Gough attempts to supplement his study with an analysis of tax-

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[1]Gough, p.110.
[2]Gough, p.114.

incidence. On the basis of government data he argues:

> the welfare state is primarily an agency for redistributing income 'horizontally' between families of different types and in different situations. . . . In other words, the welfare state redistributes income within the wage and salary-earning class (the working class, broadly conceived), not from the upper and upper-middle classes downwards, and certainly not necessarily from profits to wage incomes.[1]

Despite the appeal of this conclusion to Marxist scholars, the empirical analysis from which it is drawn is inadequate in that it is not situated at the level of social classes, instead considering only a handful of households of differing income-levels.

Gough does not adequately provide a means of empirically differentiating between state expenditure received by the classes within the personal sector, nor the taxes they pay. This crucial weakness renders his study worthless for proving anything in relation to the role of the state in redistributing income between social classes. In this respect, Gough's problems are primarily methodological: his study lacks a method affording an empirical quantification of the redistributive activities of the state in relation to social classes. Tonak's contribution is to develop such a method.

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[1]Gough, p.114.

(1.7) A Methodological Innovation: The Work of Tonak

Tonak's study focuses on the United States in the years 1952-1980 and aims to investigate:

> how the state directly participates in the distribution process *vis-a-vis* the working class and what effect such participation has on the wages of workers.[1]

He adopts a novel empirical approach to this problem by developing the concept of 'net-tax', defined as "taxes paid to the state minus benefits and income received from it". Empirically calculating a 'net-tax series', that identifies the amount of net-tax the *working class* pays, forms the bulk of his paper.

Tonak's subsidiary interest is to empirically identify workers' 'true wage' by adjusting nominal wages for the effects of the income flows associated with welfare expenditure. This involves "the theoretical construction and empirical estimation of an appropriate measure of wages, adjusted for the net effects of state taxes and expenditures".[2] This measure he terms the 'true wage', its empirical estimate he labels the 'observed true wage'.

Tonak differentiates between two stages of analysis that measure net-tax incidence. First is the analysis of 'Type One' incidence, which is

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[1]E. A. Tonak, 'The U.S. Welfare State and the Working Class 1952-1980', Review of Radical Political Economy, v.19, no.1, 1987, p.47.
[2]Tonak, p.48.

characterized by "The difference between the measure of the nominal wage of workers and the[ir] true wage . . . ."[1] Second is the analysis of 'Type Two' incidence, which entails "comparison of [the] observed true wage with [the] estimated true wage which would occur under some hypothesized alternative conditions . . . ."[2] Tonak, however, restricts his study to Type One incidence. Analysis of Type Two incidence is ruled out of Tonak's study on the grounds that it would require development of sophisticated Marxist macro-economic models.

Tonak locates his analysis at the level of the working class as a whole, and sets forth a methodology with which to assign state expenditure to wage-earners. In so doing, he takes a methodological 'quantum leap' over Gough's study, and simultaneously solves the small problem of estimating the social wage. This study will empirically operationalize Tonak's concept of 'net-tax' by using his methodology to configure a set of data drawn from New Zealand's national accounts. Empirically operationalizing 'net-tax' will facilitate a test of the propositions developed earlier: whether the state in New Zealand has redistributed income to the working class, or away from the working class.[3]

(1.8) Aims and Scope of Thesis

At the outset of this chapter, it was argued that the reaction by Marxists to attacks on the welfare state must be based on a thorough

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[1]Tonak, pp.48-49.

[2]Tonak, p.49.

[3]Insofar as this task is the main focus of this study, the strand of Tonak's work concerning the incidence of net-tax will not be developed any further.

grasp of the actual empirical effects of the welfare state on the living-standards of the working class. This involves testing the social democratic proposition (seemingly adhered to by some Marxists) that the welfare state *has* benefitted the working class. Having arrived at a broad conception of the manner in which welfarism in New Zealand will be put 'on trial' - assessing the state's impact on inter-class income redistribution - these concerns were crystallized into a set of empirically testable propositions, or 'scenarios', each with a specific set of implications.

It was established that the only way that the working class as a whole can benefit from the state-provided social wage is if the state redistributes income from capitalists to wage-earners (or, in other words, only if wage-earners pay less in taxes than they receive in state expenditure). Whether the state has enhanced the living standards of the working class as a whole, or whether it has merely shuffled income *within* the working class, will be empirically ascertained by testing the set of propositions developed previously.

Only two empirical studies which attempt to precisely quantify the impact of the state on inter-class income redistribution have been identified. Of these, only one was deemed to have a methodology suitable for evaluating the extent to which the scenarios outlined above hold in New Zealand. Undoubtedly, other approaches may exist, but the rapidity with which Tonak's methodology has been seized on and

applied by Marxists the world over suggests that his work represents one of the first real attempts to grapple with these issues.[1]

The overriding aim of this thesis is to use Tonak's method to empirically quantify the degree of inter-class income redistribution effected by the state in New Zealand. Hence, this study proceeds as an attempt to address a largely unexamined empirical problem using an innovative methodology, rather than a test of some or other theory or 'model' as such. In this light, a further aim of this thesis is to evaluate the efficacy of Tonak's method in illuminating the redistributive activities of the state.

The scope of this study has been largely determined by the availability of the national accounts data used in applying Tonak's method to New Zealand. The constraints imposed by the data will be elaborated further in Chapter Three; suffice to say at this point that a standardized data-set is only available for the years 1949-75, and these years have been assigned as the parameters of the time-period that will be considered.

The task of delimitation completed, it remains only to provide a brief overview of the structure of the thesis. Chapter Two will present a theoretical discussion which will clear away the debates associated with the large problem of estimating the social wage, in order for the empirical analysis to proceed. Chapter Three will outline Tonak's method and establish the foundation for its application to a data-set

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[1]See the remark by Tonak cited on p.32 below.

drawn from New Zealand's national accounts. A considerable portion of this chapter will deal with the 'small' problem of estimating the social wage. Tonak's methodology will be used to allocate *specific components* of state expenditure to the working class, in order to construct the social wage's empirical referent. Particular attention will also be paid to the applicability of Tonak's method to New Zealand and the strategies employed in its adaptation.

On the basis of the framework developed in Chapter Three, Tonak's category of 'net-tax' will be empirically operationalized in Appendix One. The resulting data will be presented and analysed in Chapter Four; which of the two 'scenarios' specified previously hold in New Zealand will be ascertained in this chapter. Chapter Five will draw the thesis to a close, by presenting a global assessment of the findings and the methodology.

Marxists have not carried out studies such as this mainly because of the lack of a method with which to empirically quantify the redistributive activities of the state. Insofar as these are primarily failings of method, when a new method comes to light it must be used. That Tonak's work represents a major methodological advance is borne out by the speed with which Marxists around the world have adopted it. He remarks: "As an on-going collective research activity, similar frameworks have already been applied to the United Kingdom and other European countries".[1] An application of Tonak's framework to

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[1]Tonak, p.71, n.13.

New Zealand is well overdue; this study will attempt to remedy this state of affairs.

Chapter Two: Theoretical Considerations in Identifying the Source of State Revenue and Expenditure

(2.1) Introductory Remarks

While Tonak's method solves the small problem of allocating *specific* components of state expenditure to wage-earners, the large problem (the notion that wage-earners 'consume' state expenditure in the first place) remains to be dealt with before the social wage can be estimated, and thus before Tonak's 'net-tax' category can be empirically operationalized.[1] To solve the large problem, this chapter will be devoted solely to the task of locating the social wage and its source of revenue in taxes within the conceptual categories of Marxist economic theory. As a theoretical 'ground-clearing' exercise, it will not only form the foundation of the empirical analysis subsequently attempted in Chapter Three, but also provide the very rationale for an empirical analysis.

The principal concern at this stage of the analysis is not to determine which of the specific components of state expenditure are 'consumed' by wage-earners. The task of identifying the empirical referent of the social wage will be held over to Chapter Three. Rather, it will be

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[1]Tonak does not deal with this issue in the published text on which I rely, simply taking for granted the notion that wage-earners consume a portion of state expenditure. Although his doctoral dissertation may contain such a discussion, it is not as yet available for public dissemination: E. A. Tonak, A Conceptualization of State Revenues and Expenditures. Unpublished Ph.D. Dissertation (Incomplete), Department of Economics, New School For Social Research, New York.

established that for the working class to be considered to consume a portion of state expenditure at all, regardless of its specific empirical content, requires the income-flows involved to be conceptualized as originating in variable capital. More precisely, the empirical analysis can only proceed if an argument can be sustained that the source of the *taxes* that fund the social wage is variable capital. To this end, it is necessary to refute the arguments made by some Marxists that *all* taxes ultimately derive from surplus value.

(2.2) Do Wage-Earners 'Consume' State Expenditure?

The relation of state expenditure and revenue to Marx's value-categories has engendered a fundamental disagreement within Marxist theory. Any attempt to conceptually identify the source of state expenditure inevitably requires an examination of Marxist debates over taxation. On the one hand, some Marxists maintain that the source of all taxes is surplus value.[1] That a *portion* of taxes are surplus value is a singularly non-contentious proposition - all self-respecting Marxists would agree that taxes used fund the overtly repressive elements of the bourgeois state apparatus (military, police, courts and so forth) are derived from surplus value. Indeed, this relation forms the material basis of the bourgeois state: the capitalist class yields a portion of surplus value in the form of taxes to fund the state.[2] However, the claim

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[1]See section 2.3.1 below.

[2]E. Mandel, 'Methodological Issues in Defining the Class Nature of the Bourgeois State', Marxismus und Anthropologie, Bochum, Germinal Verlag, 1980 (Transl. J. Bendien, August 1985), pp.21-24.

that *all* taxes, and by implication *all* state expenditures, are funded from surplus value is decidedly controversial.[1]

It is essential to examine this set of debates, for if all state expenditure has its source of revenue in surplus value (which is the necessary corollary of the claim that all taxes derive from surplus value), a portion of state expenditure cannot be regarded as being 'consumed' in any strict sense by wage-earners. Insofar as the expenditures that might otherwise be regarded as being consumed by wage-earners (a portion of state-provided social services and monetary benefits) are funded from surplus value, they must be assumed to unambiguously serve the functional interests of the capitalist system, and to be 'repressive' in the immediate sense, because it is precisely by virtue of the repressive state apparatus being funded out of surplus value that provides the material basis to its 'repressive' character. From this perspective, wage-earners do not consume a portion of state expenditure, therefore it is meaningless to attempt to empirically quantify a 'social wage'. To assume otherwise is to pose a fundamental challenge to the internal coherence of the Marxian framework.

To assist in clarifying a somewhat convoluted debate, it will prove useful at this point to schematize its main lines. To this end, the state and taxes will be located within the capitalist circuit - but even this has its attendant difficulties. A common misconception one author points to is

[1]The debates over this issue found their fullest expression in Britain in the 1970s. Ben Fine, Laurence Harris and Ian Gough figured prominently amongst the protagonists in this theoretical affray. Their work is discussed below.

the notion "that since taxes . . . are not governed by the market, or at least by the simple laws of commodity exchange, they fall outside the scope of value-analysis."[1] As a consequence, "The enquirer is tempted to treat the state as an agent 'external' to the circulation of value".[2] A moment of reflection, however, leads one to recall that the state must levy taxes in order to exist, and necessarily enters the realm of the "circulation of value" (to use Freeman's phrase) in doing so. The latter theorist himself makes the point well: "State taxes and spending do not lie on a circuit of use-value external to the market but are a component of the overall circuit of annually-produced value."[3]

Therefore it *is* possible to locate within the capitalist circuit the impact of the state in levying taxes.[4]

$$M - C(LP.MP)...P...C' - M'$$

The foregoing figure is a standard schematic representation of the capitalist circuit. A brief description of the manner in which it operates is in order. M corresponds to the money capital advanced by capitalists at the beginning of a production cycle to purchase the commodities (C) *labour-power* and *means of production* (respectively capital in its variable and constant forms). Both are combined in the process of

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[1]Freeman, p.9.
[2]*Ibid.*, p.9.
[3]*Ibid.*, p.9.
[4]The following discussion of the capitalist circuit is based on Marx's own discussion of the subject in Capital Volume Two, particularly Chapter One 'The Circuit of Money Capital'. For reasons of brevity it has been streamlined to a degree. K. Marx, Capital: A Critique of Political Economy, Volume Two. Harmondsworth, Penguin Books Ltd, 1985.

production (P) to produce commodities of greater value (C') than the commodities that initially went into their production. The newly produced commodities (C') are then exchanged for a greater amount of money (M') than was originally laid out at the beginning of the circuit.

This figure does not, however, readily lend itself to locating the state and taxes. Nor for that matter does it demonstrate the precise mechanism by which the valorization (increase in value) of capital represented by the difference between C and C' (equally between M and M') occurs. Both problems can be solved by examining the aggregate exchange-value output (C') of the circuit in greater detail.

The component C' represents the total exchange-value of commodities produced in a single cycle of production, comprising the constituent components of capitalist production thus:

$$C'=(c+v)+s.$$

The components constant capital (c) and variable capital (v) represent the total input costs to capitalists at the beginning of the production cycle. In Marx's words, constant capital is:

> That part of capital . . . which is turned into means of production, i.e. the raw material, the auxiliary material and the instruments of labour, [and] does not undergo any quantitative alteration of value in the process of production.[1]

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[1]K. Marx, Capital: A Critique of Political Economy, Volume One. Harmondsworth, Penguin Books Ltd, 1982, p.317.

It is precisely because the value of this portion of capital is not 'quantitatively altered' in the production process that Marx labels it 'constant'. Variable capital, on the other hand, is the part of capital exchanged for the labour-power of members of the working class - it is the input cost to capitalists, represented by workers' wages. Hence, Marx defines variable capital as:

> that part of capital which is turned into labour-power . . . [and] undergo[es] an alteration of value in the process of production. It both reproduces the equivalent of its own value and produces an excess, a surplus value.[1]

In the latter respect, this portion of capital is truly 'variable'.

As the total input costs, constant capital and variable capital correspond to the the component M at the beginning of a production cycle. The component (s) represents the surplus value extracted from wage-earners - the new value they create over and above the value of their labour-power. It is by the amount of this 'surplus' value that C' (the aggregate exchange-value output) exceeds C (the input costs at the beginning of the production cycle), thereby representing the valorization of capital.[2] It will be noted that C' is equal to *gross* exchange-value output in the sense that *inter alia* the wealth

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[1]Marx, 'Capital Volume One', p.317.

[2]Capital accumulation occurs when a portion of surplus value is productively reinvested in extra labour-power and means of production in the next production cycle. See Chapter Two 'The Circuit of Productive Capital' in Part One of Capital Volume Two, and Part Three of this same work, particularly Chapter 21 'Accumulation and Reproduction on an Expanded Scale'.

appropriated by the state in the form of taxes has not been deducted. Indeed, the schema C'=(c+v)+s assumes there is not a state, which of course is a grossly unrealistic assumption. The state, as an intrinsic feature of capitalism, must be inserted into this model. More specifically, the source of taxes levied by the state must be identified.

It should be noted that the bracketing off of constant capital and variable capital in the preceding model emphasizes that these are the input costs to capitalists. The next 'moment' in the circuit after constant capital and variable capital have been advanced is the creation of *new value*. Workers create new value in the amount of variable capital laid out by capitalists in purchasing their labour-power, and *surplus value* - the source of the capitalists' profit.[1] Equally, therefore, a slightly different notation can be used to signify variable capital and surplus value as the two components of *new value* created:

$$C'=c+(v+s).$$

As such, taxes must ultimately have their source in one or other - or both - of these categories. There simply is no other source from whence they can originate.[2] Identifying which of these categories taxes do actually derive from is the crux of the argument under consideration.

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[1]Hence, the amount of surplus value created is a function of variable capital. Its determinants need not concern us here.

[2]It will be recalled that constant capital (the portion of capital used to purchase the means of production) does not have the potential to create new value.

Reviewing the entire corpus of Marxist literature on taxation is a lengthy task quite beyond the scope of this chapter. Considerable diversity of opinion exists within the two contemporary schools of thought, one of which claims that all taxes derive from surplus value, while the other bifurcates taxes into a surplus value component and a variable capital component. The arguments of a selection of theorists from each of these tendencies will be examined, using the foregoing schematic summary of the debate to orient the review. It is my intention to develop a critique of the argument that all taxes are derived from surplus value.

(2.3) From Whence Do Taxes Originate?

(2.3.1) Tendency #1: All Taxes Originate From Surplus Value.

Fine and Harris

Exposition

In the view of Fine and Harris, all taxes have their source in surplus value. They contend:

> In Marx's value analysis . . . all taxes are taxes on capital and the source of all tax revenue is surplus value. . . . While taxes on labour may *temporarily* redistribute from labour to capital, the

> normal situation will be for a restoration of the (net) value of wages to the value of labour-power.[1]

The impact of a tax, even though it may fall immediately on workers, in the long term falls on the capitalist class because of subsequent wage increases this latter class must inevitably concede to the former. This claim entails a corollary:

> In Marx's value analysis, a tax on wages cannot effect a redistribution of values toward capital, for wage revenues equal the value of labour power and the net value of wages cannot be permanently depressed below it.[2]

Their argument is deceptively plausible: when a tax increase, or the imposition of a tax, depresses money wages (the *price* of labour-power) below the *value* of labour-power, a counter-tendency is set in motion which ultimately results in wages gravitating upwards to the value of labour-power.[3] Any such tax is passed onto the capitalist class through their having to pay increased wages. Hence the true burden, or (in parlance of bourgeois economics) the *incidence* of taxation, falls on capitalists insofar as they ultimately have to concede increases in wages, which *ceteris paribus* reduces the share of new value accruing to them as surplus value (the source of their profits). In this view, even if taxes levied on the working class are used to fund welfare expenditure, workers do not in the long run actually 'pay' (in the immediate sense)

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[1]B. Fine and L. Harris, 'State Expenditure in Advanced Capitalism: A Critique', New Left Review, no. 98, July-August 1976, p.106.

[2]Fine and Harris, p.106.

[3]For one of the clearest introductions to the concepts of value and price in the work of Marx, see his 'Wages, Price and Profit', Marx Engels Selected Works, Volume One. Moscow, Foreign Languages Publishing House, 1958.

for the social services and monetary benefits provided, because of the increase in wages which will inevitably result. They are still ultimately 'taxes on capital'. Fine and Harris assert:

> The imposition of a tax on wages (or wage goods) must lead to a rise in gross wages; it is, therefore, in fact a tax on capital which is collected through the wage mechanism.[1]

From the point of view of Marxist economic theory, it *is* the case that the wage, as the *price* of labour-power, fluctuates around the *value* of labour-power in the short term in accordance with the warp and weft of the trade cycle.[2] This mechanism gives rise to movements in the prices of all commodities in accordance with the forces of supply and demand, and the price of labour-power (the wage) is no exception. Insofar as the trade cycle gives rise to changes in the supply of and demand for labour-power, the size of the reserve army of labour, mediated by the class struggle (the activities of trade unions and so forth), is the key variable in determining wage levels. In periods of prosperity, given low rates of unemployment, the demand for labour-power exceeds the supply of labour-power, hence its price - the wage - rises. In periods of economic crisis the opposite occurs: high rates of unemployment result in the supply of labour-power exceeding the demand for this commodity, and wage levels consequently fall.[3]

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[1]Fine and Harris, p.106.
[2]E. Mandel, 'Introduction', Capital: A Critique of Political Economy, Volume One, K. Marx. Harmondsworth, Penguin Books Ltd, 1982, p.68.
[3]Mandel, 'Introduction', Capital Volume One, p.67.

A closer inspection of the relationship between the value and price of the commodity labour-power, however, reveals that Fine and Harris's argument is flawed. It is not at all the case that wages must necessarily increase to offset increased taxes, because of the dependence of wage fluctuations on a series of intermediary variables - foremost among these are movements in the value of labour-power itself. In the long term, wage fluctuations reflect movements in the value of labour-power, which in turn are shaped by the accumulation of capital.[1]

The accumulation of capital affects the value of labour-power in several key respects. First, as a result of the introduction of new and more efficient techniques, borne of competition between capitalist firms, increasing productivity of labour in the consumer goods sector (or department) reduces the value of labour-power (conceived as the value of a finite number of wage goods).[2] Second, the tendency for the accumulation of capital to decrease the value of labour-power is accompanied by an increase in the actual *number* of wage-goods produced, which may through the process of class struggle come to be included in the moral-historical component of the value of labour-power (the consumption norms historically established and accepted by wage-earners, as opposed to the component set by their *physiological* requirements).[3] This countervailing tendency augments the value of labour-power in the amount of the newly-included goods. Other things being equal, an increase in the moral-historical component of the value

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[1] Mandel, 'Introduction', Capital Volume One, p.68.
[2] *Ibid.*, p.68.
[3] *Ibid.*, p.68.

of labour-power is more likely if the supply of labour-power is greater than the demand for labour-power.[1]

Thus, given an increase in the productivity of labour and a consequent increase in the mass output of consumer goods, the value of labour power need not *automatically* decrease. If the productivity of labour increases and real wages (the *number* of wage-goods the money wage buys) increase at too great a rate, workers simply purchase a greater number of wage-goods, maintaining the value of labour power at the same or a higher level than prior to the increase in productivity. An increase in the rate of exploitation does not therefore result - the latter may even decrease. Gouverneur concisely identifies the conditions required to bring about a decrease in the value of labour power in the following manner:

> it is necessary (and sufficient) that the *number* of necessaries of life consumed should increase less than the fall in their *average value*. In other words, it is necessary (and sufficient) that *the workers' level of consumption should increase less rapidly than productivity* in the (direct and indirect) production of their means of subsistence.(emphasis in text)[2]

To effect a decrease in the value of labour power, and therefore an increase in the rate of exploitation, requires that increases in the real

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[1]Mandel, 'Introduction', Capital Volume One, p.68.

[2]Gouverneur, p.167. Under these circumstances wage-earners can both experience an increase in real wages, enabling them to buy a greater number of consumer goods and thereby enjoy a higher standard of living, at the same time as they are exposed to a higher rate of exploitation. The mechanism Marx identified to explain this phenomenon is 'relative surplus value'. See Capital Volume One, Part Five 'The Production of Absolute and Relative Surplus Value'.

wage be constrained. This may be done either directly, or by such means as inflation.

There is in evidence from the preceding discussion a dialectical effect: the trade cycle not only conditions the price of labour-power, but also its value. Just as the moral-historical component of the value of labour-power and real wages can be boosted in favourable socio-economic conditions, in unfavourable conditions both can be reduced. In an economic crisis, unemployment (the size of the reserve army of labour) will increase, exerting a downward influence on wage-levels. Thus, it is the case that

> capital can successfully force the price of the commodity of labour-power down to a level below its value, when the economic relationship of forces is particularly disadvantageous to the working class.[1]

Furthermore, given certain conditions, the moral-historical element of the value of labour-power could itself be whittled away. Mandel germanely observes:

> when the political and social relationship of forces is disadvantageous to the working class, capital can successfully lower the value of labour-power by annihilating a series of workers' historical or social achievements, i.e., by partially eliminating commodities which cover their needs from the 'standard of life' regarded as normal.[2]

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[1]E. Mandel, Late Capitalism. London, Verso, 1987, p.151.
[2]Mandel, 'Late Capitalism', p.151.

Hence, the value of labour-power is indeterminate, dependent as it is on the prevailing conditions of capital accumulation, class struggle and so forth. Insofar as increased taxes cause wages to drop below the value of labour-power, wages need not *necessarily* gravitate back upwards to that same level of the value of labour-power. Given certain conditions (an economic crisis, for instance, or the smashing of trade unions, or an ebb in the class struggle), the moral-historical component of the value of labour-power could decline, leading to an overall drop in the value of labour-power itself.

In other words, although wages do indeed fluctuate around the value of labour-power, the value of labour-power is not a fixed or static pole, but itself an inconstant quantity. Therefore, the argument that wages will always return to the value of labour-power as a result of capitalists being forced to concede wage increases cannot be advanced as an immutable mechanism to account for why all taxes are derived from surplus value, for it overlooks a whole series of subtle and intricate interconnections between the value and price of the commodity labour-power.

Unless it could be empirically proven that, when increased taxes depress wages below the level of the value of labour-power, wages will always leap back to this level, (thereby impinging on capitalists' profits) this argument does not constitute sufficient evidence to unambiguously assert that *all* taxes are derived from surplus value. One of the outcomes which may result is an increase in wages to the value of labour-power, but it is only one among many; a number of

determinations may come into play. In any case, Fine and Harris do not provide such evidence.[1] It is all very well to invoke the standard 'other things being equal' disclaimer, but in the long term other things are *not* equal, and it cannot be assumed that in all cases the value of labour-power remains static - it does not.

Additionally, it should be noted that Fine and Harris's argument implies that workers are not paid the true value of their labour-power, insofar as it is "topped up" by the state from surplus value in the form of subsidized or free social services and monetary benefits.[2] This view contradicts Marx's claim that in all cases workers *are* paid the value of their labour-power. Indeed, this discovery marked the scientific advance Marx made over Ricardo's notion of the 'value of labour' and

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[1]Although not specifically addressing Fine and Harris's argument, Wright has suggested that an empirical test of the proposition that all taxes derive from surplus value might involve: "An examination of how much money wages tend to increase with increases in the rate of taxation. . . . If money wages increase exactly in step with increases in total taxation so that real wages are never reduced by taxes, then it would be reasonable to say that most taxes are taxes on existing surplus [value]." E. O. Wright, Class, Crisis and the State. London, Verso, 1979, p.155, n.50. Nonetheless, Wright does not attempt such a test; similarly, it is beyond the scope of this study to do so.

[2]Fine and Harris also reject the concept of the 'social wage' outright. Insofar as they do not consider it to approximate a real income-flow (i.e., social services and monetary benefits do not constitute a 'social wage' in any way correlative with direct wages), they regard it an illicit abstraction to be excised from the conceptual repertoire of Marxist theory. Although this matter is largely tangential to the one at hand, it is interesting to note that their rejection of the concept does not, in the reasons they cite, flow from their view that the monetary benefits and social services denoted by the 'social wage' are funded out of surplus value. Rather, they reject it on the basis of the lack of 'exchange relationships' in the realm of the state, which they build into an argument amounting to little more than structuralist obscurantism. Thus, Fine and Harris reject the 'social wage' for the *wrong reasons*. They do not furnish satisfactory evidence to reject this concept, which is ironic because the very contradictions contained within their own argument constitute such evidence. There can be no social wage if the state expenditures it denotes are funded from surplus value.

was instrumental in his discovery of surplus value.[1] A whole raft of subsidiary issues are thereby raised, which ultimately result in the need to substantially revise Marx's categories in order to maintain such an argument.[2] It is not the intention of this author to engage in, nor anticipate the success of any such revision.

Summary and Critique

While Fine and Harris's explanation of why all taxes (and thereby state expenditures) have their source in surplus value may at first appear to be plausible, it is flawed in one crucial respect: an overly simplistic explanation of fluctuations in wages is invoked to support it. Insofar as the mechanism Fine and Harris put forward to account for all taxes originating in surplus value is faulty, the *possibility* of sustaining an argument to the contrary may at least be entertained. Indeed, the sheer simplicity and invalidity of the assumptions at the base of their argument buoys our attempt to advance the notion that a portion of taxes are funded from variable capital, rather than surplus value. As shall be seen below, another brace of Marxist scholars within the same tendency admit this possibility.

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[1]See Chapter Nineteen of Capital Volume One, 'The Transformation of the Value (and Respectively the Price) of Labour-Power into Wages'. Also see section seven of 'Wages, Price and Profit'.

[2]Some of the more sophisticated feminist critics of Marxism attempt to reject the concept of 'labour-power'. It is important for them to be able to prove (or at least assert) that workers are not paid the value of their labour-power insofar as this provides partial justification for 'revising' Marx. See, for example, R. Steven, 'A Glorious Country For a Labouring Man', Race/Class/Gender, v.1, no. 1, July 1985, p.56, n.14.

Bullock and Yaffe

Exposition

Bullock and Yaffe's discussion of taxation and state expenditure elaborates an argument presented in an earlier landmark essay by Yaffe, that all taxation has its source in surplus value.[1] Similarly, in the text under consideration here, Bullock and Yaffe maintain:

> Taxation is a deduction from the mass of surplus-value (profits) in the hands of private capital.[2]

Their's is a 'softer' argument than Fine and Harris's in that they admit an exception to this rule, to wit a fraction of taxation has its source in variable capital (the source of *productive* workers' wages). Bullock and Yaffe's argument is not, however, 'soft enough' for them to be located in the second tendency insofar as they restrict the fraction of taxation originating from variable capital to the portion of health and education expenditure that enhances the value of *productive* workers' labour-power.

While they note that "There are other items of state expenditure which can contribute to the reproduction costs of labour power", mentioning subsidized wage-goods and various forms of subsidized

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[1]D. Yaffe, The Marxian Theory of Crisis, Capital and the State', Economy and Society, v.2, no.2, May 1973, p.218.

[2]P. Bullock and D. Yaffe, 'Inflation, the Crisis and the Post-War Boom', Revolutionary Communist, v.3/4, November 1975, p.31.

housing, they focus attention solely on health and education.[1] For Bullock and Yaffe, the debate over the source of taxes and the productive/unproductive labour debate are inextricably intertwined. There is a slight difference in the way they deal with health expenditure and education expenditure, so each will be treated separately.

On the effects of health expenditure on productive workers they write: "in so far as the state health facilities are applied to productive labour, they increase the value of labour-power without increasing the mass of surplus value, so reducing the rate of profit."[2] In other words, a decrease in the rate of profit (S/C+V) results from an increase in V (variable capital) relative to C (constant capital) and S (surplus value) which, *ceteris paribus*, causes the ratio to decline.

On unproductive workers, Bullock and Yaffe write: "If they [state health facilities] are applied to unproductive labour they are a deduction from the growing mass of surplus value and so reduce the rate of profit . . . ."[3] In this case, the decrease in the rate of profit (S/C+V) is brought about by a decrease in S (surplus value) relative to C and V. In effect, their argument ties the proportion of taxes that are funded out of surplus value to the number of unproductive workers, and they conclude: "As a growing proportion of society's labour is unproductive it means that more and more health care is unproductively consumed."[4]

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[1] Bullock and Yaffe, p.34.
[2] *Ibid.*, p.33.
[3] *Ibid.*, p.33.
[4] *Ibid.*, p.33.

In other words, progressively more of the taxes which fund health expenditure are derived from *surplus value.*

They make a similar argument *vis-a-vis* state expenditure on education. Regarding the effects of this expenditure on productive workers, they write: "In so far as basic training (a very small part of education in the state sector) augments the value of labour power of productive labour, it reduces the rate of profit . . . ."[1] Thus, in the same manner as health expenditure, the decrease in the rate of profit results from an increase in V relative to C and S. The crucial difference is that education expenditure may counterbalance this decrease in the rate of profit by increasing the "productivity of the labour which has been trained."[2] Nonetheless, more restrictions follow:

> The compulsory nature of education in fact means that only the smallest fraction of this education actually raises the value of the labour power consumed productively by capital.[3]

In this light, only the 'smallest fraction' of taxes funding education expenditure can actually be said to originate in variable capital, and this portion is declining in the same manner as health expenditure, insofar as "a growing proportion of education will be consumed unproductively with the increasing proportion of unproductively

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[1] Bullock and Yaffe, p.33.
[2] *Ibid.*, p.34. This has interesting implications for workers in the state sector: "the labour power of those State employees who contribute to the reproduction of the special commodity labour power, of the productive labourers, is included in variable capital but produces no surplus value"(p.17).
[3] *Ibid.*, p.34.

employed labourers in society."[1] Thus a 'growing proportion' of state expenditure on health and education, and the taxes funding these expenditures, will originate from *surplus value.* By making their argument on the source of taxes empirically contingent on the relative numbers of productive and unproductive workers, as the number of unproductive workers *increases* (and the number of productive workers decreases), the proportion of taxes - and therefore state expenditure - originating from surplus value also *increases.*

Furthermore, if the bulk of monetary benefits and social services originate as surplus value, *ceteris paribus*, cuts in welfare expenditure will *decrease* the rate of exploitation (S/V). Consequently, if the organic composition of capital (C/V) remains static, the rate of profit (S/C+V) will similarly decrease.[2] The foregoing analysis yields interesting results in relation to struggles for increases in welfare expenditure. It can reasonably be asked how workers could ever be expected to support increases in welfare expenditure, given that these are ultimately financed from surplus value extorted from the productive sector of the working class.

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[1]Bullock and Yaffe, p.34.

[2]This point can be illustrated using a simple algebraic example. If the algebraic expression of the rate of profit (S/C+V) is divided by V, it can similarly be expressed as:

$\frac{S/V}{C/V+V/V}$, which reduces to: $\frac{S/V}{C/V+1}$.

Using this latter notation, the rate of exploitation appears as the numerator, and the organic composition of capital appears in the denominator. Other things being equal, an increase in the rate of exploitation (the numerator) increases the size of the fraction and thus the rate of profit, whereas an increase in the organic composition of capital will decrease the size of the fraction and the rate of profit.

In this respect, it is somewhat contradictory that Bullock and Yaffe laud struggles to halt attacks on welfare expenditure. In the same breath as claiming: "As a growing proportion of society's labour is unproductive it means that more and more health care is unproductively consumed" (in other words more and more health expenditure is surplus value), they state: "The call to get rid of the private sector within the health service and make it into an adequate service for the needs of the working class, strikes a blow for *all* workers against the interests of the bourgeoisie."[1] How can it strike a blow for *all* workers if, by the very fact of an increase in welfare expenditure, productive workers will simultaneously be subjected to a higher rate of exploitation?

Summary and Critique

Bullock and Yaffe commit two fundamental errors. First, their argument is based on the fallacious assumption that unproductive workers' wages are funded out of surplus value.[2] Therefore the taxes they pay and the state expenditure they receive are also considered to originate in surplus value. Second, and not unrelated to the first, they overly restrict the components of state expenditure which augment the value of labour-power in a double-sense: they include too little state expenditure in the value of productive workers' labour-power and no state expenditure at all in the value of unproductive workers' labour-

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[1]Bullock and Yaffe, p.33.

[2]They admit adhering to this view elsewhere in their paper: "the wages of unproductive labourers are in reality a part of surplus value"(p.17).

power (even though unproductive workers actually 'receive' this expenditure).

They readily admit: "the central elements of the 'welfare state' only contain a small contribution to the value of labour-power itself."[1] This, they claim, is one of the insights afforded by their "central focus . . . remain[ing] on the process of capital accumulation itself."[2] But this focus effectively results in them ignoring the bulk of welfare expenditure wage-earners receive and might otherwise be regarded as consuming. Indeed under their argument unproductive workers consume no state expenditure at all! This argument has drastic implications for any attempt to estimate the social wage. Under the assumption that wage-earners do not consume state expenditure deriving from surplus value, the portion of state expenditure they *do* actually consume (i.e. the social wage) shrinks in proportion to the fall in the number of productive workers.

Specifying the elements of state expenditure which augment the value of labour-power will be held over to Chapter Three and carried out using Tonak's method, which affords a broader definition of the components of state expenditure that enhance the value of productive workers' labour-power. Their first error, however, requires a brief detour into the productive/unproductive labour debate. Interestingly enough, Bullock and Yaffe conclude the section of their paper dealing with welfare expenditure by cautioning:

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[1]Bullock and Yaffe, p.34.
[2]*Ibid.*, p.34.

> The refusal to distinguish between productive and unproductive labour leads directly to a failure to understand the elements of state expenditure and their overall effect on capital accumulation. Inevitably, this position must lead to the reformist conception of the state.[1]

But their admonition needs to be tempered in one crucial respect: to have this distinction clearly in view while arguing that unproductive workers wages originate in surplus value, has equally if not even more serious consequences. Not only is the empirical referent of the social wage severely limited, the whole Marxian framework is thrown into disarray.

The Productive/Unproductive Labour Debate.

It will be recalled from the preceding discussion that variable capital denotes the wages of *productive* workers. Marx writes

> Productive labour, in its meaning for capitalist production, is wage-labour which, exchanged against the variable part of capital (the part of the capital that is spent on wages), reproduces not only this part of the capital (or the value of its own labour-power), but in addition produces surplus value for the capitalist.[2]

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[1] Bullock and Yaffe, p.34.

[2] K. Marx, Theories of Surplus Value, Part One. Moscow, Progress Publishers, 1975, p.152. Here he lauds Adam Smith for the latter's definition of "productive labour as labour which is directly exchanged with capital; that is, he defines it by the exchange through which the conditions of production of labour, and value in general, whether money or commodity, are first transformed into capital...."(p.157).

While the labour-power of productive workers is exchanged against *capital*, unproductive labour "is labour which is not exchanged with capital, but *directly* with revenue, that is, with wages or profit . . . ."[1] The wages of unproductive workers are also an input cost to the capitalist, but because they are funded out of 'revenue', and not capital, unproductive wage-labour does not produce surplus value, and in this sense is 'unproductive'.

It has been established that the wages of productive workers and unproductive workers are funded from different sources: variable capital for productive workers, and 'revenue' for unproductive workers. The productive/unproductive labour debate essentially concerns the source of the 'revenue' funding unproductive workers wages. If unproductive workers are paid out of the surplus value component of the new value created by productive workers, as Bullock and Yaffe claim, enhancement of the material position of the former group is necessarily predicated upon increased exploitation of the latter group. Unproductive workers appear to have an objective interest in increasing the rate of exploitation of productive workers to augment their (the unproductive workers') wages. A most incongruous situation results. As Ernest Mandel asks:

> does there not arise a major conflict of interest between productive and unproductive labour, the first seeking to reduce surplus value to a minimum, the second wishing it to be increased? How can such a basic conflict of interest be

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[1]Marx, 'TSV', p.157.

reconciled with the inclusion of both sectors in the same social class?[1]

To reiterate, in the capitalist circuit new value is apportioned between variable capital and surplus value, and all subsidiary income-flows must necessarily be derived from one of these two sources. But if unproductive workers' wages are not derived from variable capital, must they not be derived from surplus value? Mandel solves this problem in the following manner. He argues that unproductive workers in the finance and service sectors, for instance, are "paid not out of currently produced surplus value, but out of that portion of *social capital* which is invested in these sectors. Only the profits of these capitals form part of currently produced surplus value".[2] In other words, the source of the revenue funding the wages of unproductive workers in these sectors is simply a fraction of 'M' - the money capital laid out at the beginning of each cycle of production. Admittedly, where exactly to slot this fraction into the total exchange-value output of an economy (i.e. the C'=c+(v+s) schema) is more difficult, but the main point to grasp "is that since wages and salaries in all these sectors are not drawn from *currently produced* surplus value, *their payment in no way reduces the currently paid wages* of productive workers".[3]

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[1]E. Mandel, 'Introduction', Capital: A Critique of Political Economy, Volume Two. Harmondsworth, Penguin Books Ltd, 1985, p.48.

[2]Mandel, 'Introduction', Capital Volume Two, p.49. He clarifies this point by adding: "It is true that social capital is the result of *past* extortion of surplus value. But this applies also to variable capital, i.e. to wages currently paid out to productive workers"(p.49).

[3]*Ibid.*, p.49. Some unproductive workers are nonetheless paid out of 'currently produced' surplus value; namely, workers in the state sector. In this case - Mandel argues - the view that, because these workers are so paid, an increase in state expenditure necessitates a rise in surplus value and a decrease in real wages could only be proven *empirically*. Such proof would require "a very detailed

The difficulties encountered in classifying the source of taxes paid by unproductive workers reflects the problems in identifying the source of their wages proper, and the ambivalence of the literature on the productive/unproductive labour debate. It is partly in response to this dilemma that Mandel argues: "In Marx's theory all revenues are traced back to *wages* or surplus value (emphasis added)."[1] A final solution to this debate is not likely to be forthcoming in the near future, and one will not be attempted in this study. Instead, the generic category of 'wages' will simply be substituted for 'variable capital', while recognizing that this is not entirely satisfactory.

Bullock and Yaffe's argument that the bulk of welfare expenditure is surplus value, in the main, results from their view that unproductive workers' wages are paid out of surplus value. It has been demonstrated that unproductive workers' wages are *not* paid out of surplus value, and thus there is no reason to assume that the state expenditure received by them is funded out of surplus value either. Therefore the portion of state expenditure that is not funded out of surplus value need not be restricted to the expenditure which augments the value of *productive* workers' labour-power. Thus the question is put: can an argument be sustained that the portion of taxes used to fund the components of state

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analysis of the trend of the rate of exploitation and of workers living standards and needs since the 'explosion' of state expenditure "(p.49).

[1]Mandel, 'Late Capitalism', p.176, n.66.

expenditure accruing to workers (both productive *and* unproductive) are funded from wages?[1]

(2.3.2) Tendency #2: Taxes Originate From Surplus Value *and* 'Wages'

It was argued in the preceding section that wage-earners can be considered to consume a portion of state expenditure only if a consistent and coherent argument can be made that the portion of the tax-take used to fund this expenditure originates in 'wages'. Having gauged the strength (or weakness) of the 'opposition', one of whom actually concedes - albeit in an extremely restrictive fashion - that a fragment of taxation is 'variable capital', there is good reason to align this study with the views of the second tendency. This discussion will move from Gough, a theorist who only weakly adheres to the position that not all taxes are a 'drain on surplus value' (but nonetheless adheres to it more strongly than Bullock and Yaffe), through to Russell and Mandel who are strong adherents.

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[1] It is necessary to reiterate that the intention of this discussion is not to determine which components of state expenditure do actually enhance the value of labour-power - these will be identified in the following chapter. Rather, it will be demonstrated that the taxes funding whichever components are so identified can be regarded as originating in wages and not surplus value.

Gough

Exposition

It is necessary to qualify the inclusion of Gough in this category by noting that he does not explicitly state that the taxes which fund the state expenditure received by wage-earners have their source in wages, but in the course of his analysis problems are manifested that lead to *implicit* acceptance of this position. These tensions are evident in his initial statement on the source of taxes:

> The belief that all taxes are deductions from surplus value implies that the remainder - the value of labour power - is conceived net of all taxes and of all state benefits.[1]

This argument is based on Marx's definition of the value of labour-power as the sum total of socially necessary labour entailed in the (re)-production of labour-power. Marx writes:

> The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of this specific article. . . . the value of labour-power is the value of the means of subsistence necessary for the maintenance of its owner.[2]

Gough includes in the value of labour-power "the actual commodities purchased by the worker and his/her family out of wages".[3] Insofar as a

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[1]Gough, 'Political Economy', p.116.
[2]Marx, 'Capital Volume One', p.274.
[3]Gough, 'Political Economy', p.116.

portion of these commodities are bought with state-provided benefits and many are furnished by the state, he rightly argues that monetary benefits and social services must be included in the value of labour-power. He identifies the value of labour-power as "the private *and* collective consumption of the employed population in capitalist economies."[1]

This analysis leads Gough to entertain the view that at least a portion of taxes and therefore state expenditure has its source in wages. Whether he makes the link between a portion of state expenditure partly constituting the value of labour-power, and the incongruity of labelling the taxes which fund it 'surplus value' is known only to himself, for it cannot be fathomed from his writings. He writes:

> If the cost of the welfare state could be borne by the household sector, predominantly the broad working class, then its expansion would not necessarily harm surplus value and capital accumulation. But this is one extreme case. On the other hand, the opposite situation, where all taxes are ultimately borne by capital and thus reduce remaining surplus value, is an equally unlikely one.[2]

Gough's comment specifically on the issue of taxation illustrates that he attempts to sit on the conceptual fence, as it were. For purposes of this

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[1]Gough, 'Political Economy', p.117. On the latter, Gough states: "these services contribute to the daily and generational reproduction of the working class in just the same way as commodities. If they are excluded from the value of labour-power, it is clear that the latter is progressively diverging from its original definition - the total labour necessary to reproduce the worker and his/her family"(p.117).

[2]*Ibid.*, p.126.

study, the foregoing open-ended and vague formulation is singularly inadequate.

Again Gough's ambivalence is apparent:

> In the real world the final burden of taxation is determined by the ebb and flow of class conflict, and will vary with the economic and political strength of the contending classes.[1]

This is in essence correct, but the more fundamental question concerning the source of the taxes that fund state expenditure received by wage-earners is left unanswered. Gough's statement above implies that taxes are at certain junctures funded out of wage revenues and at others surplus value, depending on the vicissitudes of the class struggle. Nonetheless, some consistent position on the *source* of taxes, and thereby the social wage, must be arrived at. That the source alters in tune with the warp and weft of class struggle is not sufficient.

Summary and Critique

Gough does not provide the conceptual tools with which to ascertain (in relation to Marx's value-categories) the true 'burden of taxation'. He reaches no substantive conclusions and thus a more refined theory of taxation is required. The point to be taken from Gough's work is that it is possible to conceive of a portion of taxes being funded from wages,

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[1]Gough, 'Political Economy', p.126. A similar argument can be found in the controversial essay which served as the precursor to his memorable 'Political Economy of the Welfare State'. See: I. Gough, 'State Expenditure in Advanced Capitalism', New Left Review, no. 92, July-August 1975.

and indeed a larger portion than Bullock and Yaffe allow. It remains now to develop a more sophisticated and coherent expression of this argument.

Russell

Exposition

Russell engages in a conceptual discussion of the source of taxes prior to embarking on an empirical analysis of the role of the Canadian state in facilitating the reproduction of labour-power. In this discussion he takes as his starting-point the source of the taxes that fund state expenditure received by wage-earners (the social wage). Are these taxes derived from wages or surplus value? Russell answers this question at the outset: "the creation of a system of social wages rests squarely upon the *partial socialization of wage income.*"[1] This claim seemingly permits a precise definition of the social wage with regard to Marxian value-categories (the social wage is funded out of *wages*), but it will subsequently be demonstrated that this claim is, in fact, restricted merely to the empirical point of origin of the taxes in question.

Russell teases out the consequences of the "partial socialization of wage income" for the understanding of taxation by engaging in a critique of the argument propounded by some Marxists that all taxes have their source in surplus value. He rightly notes that his "proposition

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[1]Russell, 'Funding Canada's Social Wage', p.47.

whereby state interventions are tied to a prior socialization of working-class income - and the implications it has for a theory of capitalist taxation - will be controversial."[1] The principal aspect of Russell's critique is the need "to distinguish between taxation as a *form* of surplus value, and taxation as a *deduction* from surplus value".[2] This seemingly arcane distinction will be explicated, for it provides the key to the argument that the taxes funding the social wage originate in 'wages'.

Russell notes that income taxes may enhance profitability when spent on 'social capital'. Alternatively, if these taxes are repatriated back to workers in the form of a social wage, profitability is not so enhanced. He argues that "In neither case . . . must such taxation constitute a deduction from existing surplus value".[3] Taxes paid by wage-earners are taken by the state regardless of how they are classified conceptually, and are not a potential source of profit unless, instead of being repatriated back to workers in the form of a social wage, they are used to subsidize capital either through expenditure on 'social capital' or directly. As long as they are levied on *wage-earners*, these taxes do not impinge on the potential profits of capitalist enterprises.

Within Marxist theory the general category of surplus value is sub-divided into profit, interest and rent. Each is a *form* in which surplus value is realized and therefore, in a sense, each is a deduction from the

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[1] Russell, 'Funding Canada's Social Wage', p.47.
[2] *Ibid.*, p.48.
[3] *Ibid.*, p.48. There is a slight difference in the way he deals with direct and indirect taxes, but it need not concern us here.

mass of surplus value. In Russell's argument, however, taxes can originate from surplus value *conceptually* (i.e., as a *form* of surplus value), but do not have to "constitute a deduction" for the purposes of *capital accumulation.* In other words, such taxes do not reduce the total mass of surplus value potentially able to be realized as profit, interest and rent.

However, Russell does not take this distinction to its logical conclusion by applying it to wages. It is implied that the social wage in Canada is funded out of wages because taxes on workers' income financed it - in other words, because the empirical point of origin of the income used to fund the social wage was located in taxes paid by the working class. Thus, Russell deals only with the socialization of wage incomes by means of taxes on *workers.* He does not entertain the possibility that wages may be socialized through taxes on the capitalist class. Thus if a portion of the taxes on the capitalist class (for instance, income taxes paid by companies) were used by the state to fund the social wage, in Russell's view this class 'paid' for the social wage out of surplus value. While arguing that a portion of taxes are surplus value regardless of their manifest source (i.e. that taxes can represent a *form* of surplus value when levied on workers), he fails to draw the logical conclusion that equally a portion of taxes levied on capitalists could likewise be a *form* of wage revenues if they are used to fund the social wage, insofar as they do not represent a deduction from the 'current' wages of workers.

Summary and Critique

By not taking his form/deduction distinction to its logical conclusion, Russell fails to move beyond the empirical point of origin of the taxes used to fund the social wage. He does not realize that the empirical point of origin of the taxes used to fund the social wage is inconsequential to the way in which they are conceptually classified. As we shall see, Mandel's contribution is to make this very point.

However, it will subsequently be demonstrated that if the problem of ascertaining the source of taxes used to finance the social wage is approached from a purely analytical point of view, which is the level at which Mandel deals with it, the rationale for an empirical analysis of the type attempted in this study disappears altogether. In order to keep the need for an empirical analysis clearly in view, it is necessary to supplement Mandel's position with the distinction between taxes as a *form of wages* and taxes as a *deduction from wages* developed from Russell's work.

Mandel

Exposition

An expression of the argument that the taxes which fund the social wage have their source in wages, more sophisticated in some respects then Russell's, is set forth by Mandel. He goes straight to the heart of the matter:

> the concept of 'gross wages' (i.e. wages before tax) has no meaning in Marxist economic theory. Wages are means of reconstituting the worker's labour-power through the purchase of commodities and services. Thus money deducted from the workers 'gross wage' to help the state buy aeroplanes has nothing at all to do with wages. It is from the outset part of social surplus value.[1]

In this example, the money deducted by means of taxation from workers' wages to buy 'aeroplanes' is a *form* of surplus value (in the terminology of Russell's argument) and, in the short term at least, is not a deduction for purposes of capital accumulation.

Extrapolating his argument further, Mandel remarks:

> Similarly it would be absurd to construe state medical , educational or transport services which help reconstitute the worker's labour-power (or maintain his family under normal living conditions) as derived from surplus value: they represent rather a socialized portion of the wage, regardless of whether it 'originated' in 'gross wages' (taxes paid by the worker), 'gross profits', (taxes paid by the capitalist), or the 'gross income' of independent middle classes.[2]

For Mandel, "the total price of labour-power" is equivalent to "individual plus 'socialized' wages".[3] This argument requires that a conceptual distinction be made between a component of the total tax-take that represents socialized wages and a component that represents surplus value. In drawing this distinction, the source of taxes is

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[1] Mandel, 'Introduction', Capital Volume Two, p.49.
[2] *Ibid.*, p.50.
[3] *Ibid.*, p.50.

classified by the use to which they are put, rather than their empirical point of origin. It is of no consequence whether these taxes derive from wage-earners or capitalists: insofar as they partially constitute the value of labour-power they must be considered 'socialized' wages and not surplus value.

Thus, the empirical source of taxes used to fund the social wage is inconsequential to the manner in which they are conceptually classified, because taxes can (in terms of the distinction developed from Russell's work) either be a form of, or a deduction from wages. The taxes which fund the social wage are a *deduction* from wages when paid by workers, and are a *form* of wages when paid by the capitalist class (a socialized segment of the wage collected by means of taxes on capitalists). In light of this argument, the state expenditure accruing to wage-earners as the social wage is not under any circumstances considered to originate in surplus value, even when a portion of this expenditure empirically originates in taxes paid by the capitalist class.

It is readily apparent that the political implications of this position are more consistent with the Marxist conceptualization of the bourgeois state than those of the former school, which run counter to the basic tenets of the Marxist framework. The notion that the social wage has its source in surplus value gives rise to questions concerning the class character of the state. That the social wage is funded out of surplus value, and hence paid for by the bourgeoisie, implies that the state redistributes wealth from the bourgeoisie to the working class on a permanent basis. Such an argument is more often advanced to obscure

the class character of the state than to reveal it, and is more consonant with the bourgeois-liberal view of the state than its Marxist counterpart.

On the other hand, if the social wage is funded by means of state-mediated *intra* -class flows of income (from workers to workers), rather than state-mediated *inter* -class flows of income (from capitalists to workers), the working class pays for the social wage. Such is the case even though *prima facie* a portion of the social wage is financed out of taxes levied on the capitalist class. This view is more consonant with the Marxist view of the bourgeois state *qua* bourgeois state, insofar as the state merely redistributes wealth among workers, and does not intervene in a redistributional way on behalf of workers.

Summary and Critique

Mandel's argument could, however, be taken as a justification for not being obliged to examine from whence the taxes in question empirically originate. If the taxes funding the social wage are wages, regardless of the class on which the taxes are levied, the state could be deduced as only ever effecting an intra-class redistribution of income. The state simply redistributes wealth *within* the working class. If the empirical point of origin of taxes is lost sight of altogether, the rationale for an empirical analysis disappears along with it. Thus, it is necessary to keep in sight where taxes empirically originate from, without lapsing into acceptance of "the 'bourgeois' ideology that taxation falls on the individuals who

pay it", as Fine and Harris put it so well.[1] The form/deduction distinction developed from Russell's work allows us to do just that.

Claiming that the taxes which fund the state expenditure accruing to wage-earners originates in wages does not mean that we have to 'theoretically foreclose' on the issue of inter-class income redistribution, as Mandel's argument would lead us to. It is precisely because these taxes may be a *form* of wages or a *deduction* from wages that it is necessary to carry out an empirical analysis.

(2.4) Where Do We 'Draw The Line'?

One further matter needs to be dealt with: within the 'pool' of taxes, how do we identify which taxes are a form of wages and which are a deduction from wages? Where the 'line is drawn', as it were, has implications for the manner in which the empirical comparison of taxes paid by workers to expenditure received by workers is carried out. A simple hypothetical example will serve to illustrate the two possible approaches to this problem.

Let us assume for the sake of simplicity that the total tax-take in an economy is $200, of which wage-earners pay $100 and capitalists pay $100. The proportion of total taxes used to fund state expenditure accruing to workers is 40% (or $80), and as such is the 'wages' component of the tax-take. The remaining 60% (or $120) of total taxes

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[1]Fine and Harris, p.106.

is used to fund state expenditure accruing to the capitalist class, and as such is the surplus value component of the tax-take. The boundary between the taxes that are a form of wages and the taxes that are a deduction from wages may be drawn in two ways.

Model One

In this model, the distinction between wages and surplus value in the total tax-take is merely reproduced within the taxes paid by wage-earners and the taxes paid by capitalists:

(a) $40 of wage-earners' taxes are derived from wages and $60 from surplus value.

(b) $40 of capitalists' taxes are derived from wages and $60 from surplus value.

Model Two

In this model, however, the proportion of total taxes used to fund expenditures accruing to wage-earners are conceived of as originating solely within the taxes paid by wage-earners themselves.

(a) $80 of wage-earners' taxes are derived from wages and $20 from surplus value.

(b) $100 of the taxes paid by the capitalist class derive from surplus value.

In model one, $40 of the taxes paid by the capitalist class are redistributed to workers as a form of wages, and $60 of workers' taxes are redistributed to the capitalist class as a form of surplus value. Thus workers lose $20 to the capitalist class. Whereas in model two, $20 of workers' taxes are redistributed to the capitalist class as a form of surplus value, and nothing is redistributed to the working class from the capitalist class. The net effect is still the same: workers lose $20 to the capitalist class, but only this $20 is considered a form of surplus value, instead of $40 as in model one. The same applies in the case of workers paying less in taxes than they receive in state expenditure, that is, if a redistribution of income from the capitalist class to the working class occurs.

It is apparent that the portion of taxes that are surplus value (as opposed to wages) differs according to the model that is chosen, and that the magnitude of inter-class income redistribution differs in like fashion. Notably, in Model Two, a redistribution of income only occurs when the amount of the total tax-take used to fund social wage expenditures is greater than the sum total of taxes paid by workers. This model underpins the empirical analysis in Chapter Three.

Undoubtedly, there is a tension in comparing the state expenditure wage-earners consume to the taxes they pay, because if they pay more in taxes than they receive in state expenditure, the 'excess' taxes must be

automatically classified as a form of surplus value - which wage-earners presumably have no interest in retrieving. In resolving this dilemma, it is useful to draw attention to a comment by Gouverneur:

> Let us remember that the taxes (direct and indirect) paid by . . . wage-earners are supposed to be used, like . . . National Insurance contributions, for the financing of collective products consumed by . . . wage-earners.[1]

The assumption that wage-earners' taxes should only be used to fund the 'collective products' they themselves consume provides the justification for claiming there is 'injustice' in the situation where wage-earners pay more in taxes than they receive in state expenditure, that is, when wage-earners' taxes are used for purposes other than their own 'collective consumption' (even though, *ipso facto*, these taxes become a form of surplus value). Furthermore, these 'excess' taxes would enhance workers' living standards if received back, and would be automatically classified as originating in 'wages'.

(2.5) Summary

It was argued at the beginning of this chapter that it is meaningless to speak of a social wage (i.e. the portion of state expenditure consumed by wage-earners) if the taxes which fund it originate in surplus value. This necessitated that the arguments made by a tendency within the Marxist camp, that all taxes derive from surplus value, be rejected. The arguments of the main representatives of this tendency were confronted

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[1] Gouverneur, p.82, n.32.

and found to be remarkably weak. Fine and Harris's argument is premised on a naive understanding of the mechanisms governing wage fluctuations. Bullock and Yaffe's position largely derives from their wrongful assumption that unproductive workers' wages are funded out of surplus value.

In summary, the argument that all taxes are funded out of surplus value is inconsistent with Marxist theory on a number of counts. Indeed, the weakness of the arguments of those Marxists who hold to this view provides justification for rejecting it in favour of the view that the taxes that fund state expenditure received by wage-earners originate in variable capital (subsequently amended to the generic category of 'wages' in light of the productive/unproductive labour debate).

The form/deduction distinction developed from Russell's work, when combined with Mandel's argument that the social class on which taxes are levied is inconsequential to the conceptual classification of the taxes in question, allows all taxes funding state expenditure accruing to wage-earners (irrespective of the techniques employed in identifying which portion of state expenditure this is) to be considered as originating in 'wages' rather than surplus value. This is the case even when a portion of the taxes paid by capitalists are used to fund this expenditure. Thus, under no circumstances is surplus value considered as being redistributed back to wage-earners. While this may appear to some readers to be an exercise in conceptual gymnastics, it is essential in order to preserve the logical consistency of the Marxian framework.

However, this argument has the associated risk of negating the need for an empirical analysis, insofar as the state in financing the social wage only ever appears to effect an intra-class redistribution of income (i.e., a transfer of wealth from wage-earners to other wage-earners). But it is precisely because the taxes funding the social wage may be a deduction from wages or a form of wages (i.e., respectively they may empirically originate in taxes paid by wage-earners or taxes paid by capitalists) that an empirical analysis is required in the first place. It is therefore meaningful to compare taxes paid by wage-earners to the state expenditure they receive. In other words, it is relevant to carry out an an empirical study of inter-class income redistribution, empirically quantifying the magnitude of the discrepancy between the financing and consumption of the social wage by the working class. Such is the task attempted in the remaining chapters of this study.

Chapter Three: An Exposition and Adaptation of Tonak's Net-Tax Methodology

(3.1) Introductory Remarks

The previous chapter carried out the arduous task of putting a layer of Marxist theory beneath the study of income redistribution attempted in this and the following chapters, by relating the income-flows involved to the value-categories of the Marxian conceptual framework. This should serve to forestall prospective criticisms that this study is closer to a neo-Ricardian 'income-shares' analysis, than something strictly Marxist in nature. It also solved the large problem of estimating the social wage by demonstrating that wage-earners can be considered to consume a portion of state expenditure; at the same time it reaffirmed the need for an empirical analysis of inter-class income redistribution on the basis that the taxes used to finance the social wage can be a form of, or deduction from, wages.

The aim of this chapter is to use Tonak's method to configure New Zealand's national accounts, in order to generate the basis from which to empirically operationalize the concept of 'net-tax' for the years 1949-75. To this end, Tonak's method will be used to establish the social wage as an empirical quantity, along with the sum total of taxes (direct and indirect) surrendered by the working class to the state. Applying Tonak's method in the context of New Zealand will allow us to ascertain whether, historically, the state has redistributed wealth to the working class or away from the working class.

Tonak's net-tax methodology has in turn been modified by Alan Freeman (one of the pioneers in transposing sets of national accounts into Marxian categories) in relation to Britain. Freeman's study is particularly useful in that it outlines the strategies used to reshape the British national accounts to 'fit' Tonak's categories. Given international variation in systems of national accounts, the same task will be confronted in this chapter in relation to New Zealand's national accounts.

At the outset, it is necessary to emphasize that this study at best only *approximates* the category of 'net-tax'. This is so for two reasons. First, the national accounts, given their low level of detail, only indicate trends in national income in broad brushstrokes. Second, as mentioned above, the national accounts must be adapted to fit the task at hand, which necessarily entails some loss of accuracy.

The first matter is not a source of concern because Tonak's method does not require a greater level of detail than that provided in the national accounts. The second matter, however, is of greater importance, for Tonak's categories must be mirrored as closely as possible. Necessarily, this requires that modifications be made to the data. Again, however, this is nothing out of the ordinary in that much of this type of research involves developing techniques to enable use to be

made of otherwise incompatible data.[1] The approach adopted in this study is to be as rigorous as the data-base allows.

In light of the foregoing, one of the main tasks of this chapter will be to develop empirical indicators of the categories being sought, when the categories themselves cannot be identified in the national accounts. Additionally, insofar as it is unclear from Tonak's paper as to how to deal with certain components of national income (notably government capital expenditure), a portion of this chapter will be devoted to deciding whether to include or exclude such items.

(3.2) The Estimation of Net-Tax

It will be recalled from Chapter One that *net-tax* equals the sum total of taxes ceded by the working class to the state, less state expenditure received (i.e. consumed) by the working class. Tonak separates his net-tax methodology into six distinct stages. The actual calculation of net-tax is carried out in Phases One through Five. Phase Six involves empirically estimating the 'true wage' of workers by adjusting nominal wages using the net-tax estimates, but Tonak does not engage in this task in the text used as a model for this study. Insofar as the primary aim of this study is to establish net-tax as an empirical quantity, only Phases One to Five will be operationalized.

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[1]See: B. Hindess, The Use of Official Statistics in Sociology. London, MacMillan, 1973.

National Income at Factor Cost (henceforth 'NIFC') is the aggregate of national income used to estimate a net-tax time series for New Zealand.[1] The scope of this study is limited by the availability of NIFC data, a series of which only sporadically appears in the National Income and Expenditure Accounts from 1938 to 1949, thereby ruling this period out of consideration. This study focusses on the years 1949 to 1975, for which a consistent data-set is available. Most of the period of the long boom in New Zealand (1946-73) is thus incorporated, along with the initial years of the economic crisis ushered in at its end. It would of course be particularly relevant to examine the redistributive activities of the state in the lengthy period of crisis following 1975, but this is precluded by a change in the system of national accounts.[2]

Tonak includes in his study the taxes levied by and expenditure of local government (in terms of the American federal system, state and local government). While an argument could be made that this study should be restricted to the fiscal activities of central government, as the true 'location' of the bourgeois state, local authorities must be included two reasons. First, in New Zealand's national accounts, direct taxes

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[1] Official Estimates of National Income and Expenditure 1957-58. Department of Statistics, Wellington, p.6. *National Income at Factor Cost* is defined as "private income plus Government trading income less transfer incomes"(p.6). In turn, private income is defined as "the aggregate of earned incomes and transfer incomes (before payment of direct taxation) received by or accruing to persons and companies as distinct from income of government and local authority trading enterprises"(p.6).

[2] The National Income and Expenditure Accounts used in this study were superseded by the New Zealand System of National Accounts (NZSNA) in 1976, a system based on the recommendations of the United Nations. The principal change was a shift in emphasis from income in the former set of accounts, to production in the latter. New Zealand System of National Accounts: Concepts and Design 1971-72 to 1980-81. Department of Statistics, Wellington, 1983, pp.5-6. No attempt will be made to configure the NZSNA using Tonak's method.

subtracted from each of the categories of private income (salary and wage payments, pay and allowances of armed forces etc.) include those levied by local authorities. The amount of direct tax levied by local authorities on each category of private income cannot be separately identified and systematically excluded. For instance, it is not possible to ascertain the amount of rates paid by salary and wage-earners. Second, the aggregate figures for total indirect taxes listed in the national accounts include indirect taxes levied by local authorities (mainly licence fees), which again cannot be separately identified and systematically excluded. For the sake of consistency, on both counts, revenue and expenditure of local authorities must be included in this study.

(3.3) The Net-Tax Methodology

The five 'phases' of Tonak's method of estimating net-tax will be outlined, and supplemented where relevant with Freeman's interpretation and application of each phase to Britain's national accounts. The principal categories of New Zealand's national accounts required for each phase will then be identified and defined, and configured so as to mirror Tonak's categories. A summary statement of the resulting net-tax methodology is located in Appendix 3.1. The methodology is then applied to the data set in Appendix One.

Phase One: Tonak

The primary aggregate measure of national income drawn from the National Income and Product Accounts (NIPA) of the United States and used to generate net-taxes is *Net National Product*, which Tonak subdivides into *Gross Labour Income* (GLI) and *Gross Non-Labour Income* (GNLI). He develops these secondary aggregates by classifying each category of Net National Product into either GLI or GNLI. Gross Labour Income "consists of wages and salaries, other labour income and employer contributions for social insurance", while Gross Non-Labour Income comprises "proprietors income, corporate profits, rent, net interest, indirect business taxes, and business transfers."[1]

Phase One: New Zealand

The measure of national income chosen as a starting-point is that of Net National Income at Factor Cost (NIFC), from which are derived Gross Labour Income (GLI) and Gross Non-Labour Income (GNLI).[2]

Net National Income at Factor Cost

(1) *Gross Labour Income*

-Salary and wage payments

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[1]Tonak, p.49.
[2]After Tonak, p.49.

(2) *Gross Non-Labour Income*

-Company Income

-Other personal income

-Pay and allowances of armed forces

-Government and local authority trading income

-Rental value, owner occupied houses

Gross Labour Income is composed solely of *salary and wage payments*, the nature of which are self-evident, except insofar as they include "payments in kind (food, quarters, etc.) . . . [and] payments to workers under the Workers Compensation Act and contributions by employers to superannuation schemes".[1] It is important to bear in mind the issue raised by Tonak, as to "whether . . . inclusion of *all* salary earners as members of the working class produces any substantial bias in the results, given that some of the salary earners are actually non-workers, e.g. executives, etc."[2] Undoubtedly, an element of bias along these lines is likely to be present in the data used in this study. To take just two examples, it is likely that the category of *Labour* includes some individuals whose salaries are high enough to allow them the opportunity to accumulate capital, and salary and wage-earners who own businesses that afford them an independent source of income.[3] Given that members of the working class cannot be separately identified in the NIFC data, a solution to this problem is not forthcoming. Thus, it

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[1]OENIE 1957-58, p.28.

[2]Tonak, p.54. He subsequently concludes that his data is not substantially biased.

[3]As Ernest Mandel notes, "All owners of capital belong to this [the capitalist] class, including rentiers and all those who *could* live on the interest of their capital and do pocket this interest, regardless of whether they additionally also happen to exercise a profession"('Methodological Issues', p.27).

is sufficient to note that in the context of this study *Labour* refers to the working class *broadly defined* as all salary and wage-earners, and to bear this in mind when analysing the data.

Gross Non-Labour Income , on the other hand, comprises several elements. The category of *company income* is relatively straightforward: "Net income of companies before distribution; profits and dividends remitted abroad are deducted".[1]

Other personal income is defined as "The aggregate income of unincorporated businesses, farmers and professions as well as net rent, interest and income derived from overseas by households".[2] As such, this category properly belongs in Gross Non-Labour Income insofar as its constituent components do not accrue to workers.

Pay and allowances of armed forces located in this country and overseas is included in the GNLI portion of national income insofar as the armed forces are part of the bourgeois state apparatus, and for this reason armed forces personnel cannot be regarded as 'workers' in the strict sense. Thus, the payments maintaining them cannot be considered as income accruing to labour.

Rental value of owner-occupied houses is "an estimate of net rental values (before payment of rates, but after deduction for depreciation, mortgage interest, insurance, and repairs and maintenance) of all

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[1] OENIE 1957-58, p.28.
[2] *Ibid.*, p.28.

owner-occupied houses except farmhouses."[1] This is a troublesome item. Pearce, for instance, regards this category as merely one of the many groundless abstractions used by bourgeois economists.[2] If his argument is accepted, it should be excluded from this analysis altogether. However, in estimating the incidence of direct taxes, 'Rental Value of Owner-Occupied Houses' is added to 'Other Personal Income' in the national accounts, and direct taxes on both are combined. Thus, it is not possible to separately identify the amount of direct taxes attributable to 'Rental Value', independent of 'Other Personal Income'. Insofar as the amount of direct taxes on 'Other Personal Income' is crucial to the estimation of net-tax, 'Rental Value' must be included in this study, albeit as a form of non-labour income in the same fashion as 'Other Personal Income'. It should be noted that inclusion of 'Rental Value' in Gross Non-Labour Income works to bias the results in the opposite direction to the incorporation of all salary earners in the working class. To some extent, these assumptions must counterbalance one another.

Government and local authority trading income represents:

> The net total of profits and losses of all General Government and local authority trading undertakings before transfers by

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[1] OENIE 1957-58, p.28.

[2] G. Pearce, Where is New Zealand Going? Unpublished Ph.D. Dissertation, Department of Sociology, University of Canterbury, p.112. He pointedly notes: "This fictitious entry represents either an income that would accrue if the owner let the property, or a cost that would be incurred if the owner had to rent it. The inclusion of imputed rent is arbitrary; no figures are imputed for the 'rental value' of private cars (which could be leased), washing machines (which could be laundries), kitchens (which might be restaurants) or any number of other assets that 'could' generate income"(p.112).

> way of interest on capital liability, direct taxation, etc. to the General Government or particular local authority.[1]

Government trading departments are treated in this study as ultimately being "forms of capitalist property" (to borrow a phrase from Freeman). Thus, the profits of trading departments can be classified as a form of Gross Non-Labour Income.

Lump sum payments from the United Kingdom government:

> These payments, made by the United Kingdom Government during the war and immediate post-war years, represent income accruing to New Zealand but not expressed in prices, and so are shown separately in the National Income accounts.[2]

Only categories of *national* income will be considered in this study, and this category is omitted from the analysis on the basis that it marks no real addition to national income.[3]

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[1]OENIE 1957-58, p.28. This category is subdivided in Table 7 into General Government Trading Income (Item 3) and Local Authority Trading Income (Item 16). Both sum to Item 6, Table 3. That this category represents the profits of trading departments is evident in that the category 'Cost of Government-Provided Goods and Services' (Table 3, Item 16) *excludes* "Expenditure by Government trading departments . . . their profits appearing as item 6 on the income side of the account"(p.29).

[2]OENIE 1957-58, p.31.

[3]Pearce makes the argument that this revenue is not "a direct reward to a factor of production", nor was it "'earned' through active participation in the nation's economy", and is not generated "in current output of goods and services produced for sale in markets" (p.136). It must be noted that he also make the same argument for *pay and allowances of armed forces*. This latter category has, however, been included in the present study on the grounds that the taxes paid on this income mark an addition to the tax-pool in New Zealand available to be redistributed by the state.

Public debt interest paid in New Zealand, the remaining category of NIFC, represents "Total interest paid in New Zealand on General Government and local authority debt."[1] It is subtracted from the sum total of the preceding categories to arrive at the aggregate NIFC figure. Although it was established in relation to the preceding item that this study is restricted to categories of *national* income, insofar as it is not aim of this phase to precisely measure the level of national income, this category will be omitted and subsequently dealt with in the analysis of government expenditure.

In summary, *Gross Labour Income* is composed solely of salary and wage payments, while the components included in *Gross Non-Labour Income* are company income, other personal income, pay and allowances of armed forces, government and local authority trading income, and rental value of owner occupied houses.

Phase Two: Tonak

The second phase requires that taxes be apportioned between labour and non-labour. To determine the proportion of personal income tax paid by members of the working class, Tonak uses "the ratio of total labour income to adjusted personal income".[2] This ratio expresses the 'labour share' of income in 'adjusted' personal income and is taken as an indicator of the portion of income tax paid by workers. For instance,

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[1]OENIE 1957-58, P.28.

[2]Tonak, p.52. Personal income is 'adjusted' in the sense that imputed income is subtracted from it.

Tonak calculates the labour share in 1980 to be .71, and on this basis he assumes the working class paid 71% of personal income tax.[1] In the text, on which this study relies, he provides little justification for this somewhat arcane procedure, and in the absence of further information on the U.S. system on national accounts, it cannot be explicated any further. This is unfortunate because 'Labour Share' is a crucial variable in Tonak's analysis, for on the basis of this quantity he subsequently allots certain indirect taxes and state expenditures to Labour and Non-Labour (these will be identified in due course).

Freeman calculates the labour-share of taxes on income as the proportion of income-tax paid by wage-earners, which is directly listed in the British national accounts. The same calculation is carried out by Freeman for 'property' (the equivalent of Tonak's 'non-labour'). In the same fashion as Tonak, he then proceeds to allocate indirect taxes and elements of state expenditure to Labour on the basis of wage-earners 'share in income tax'.

Phase Two: New Zealand

Direct Taxes

The amount of direct tax paid on each of the components of GLI and GNLI is available in the national accounts. A similar approach to Freeman's is used in calculating a quantity comparable to Tonak's

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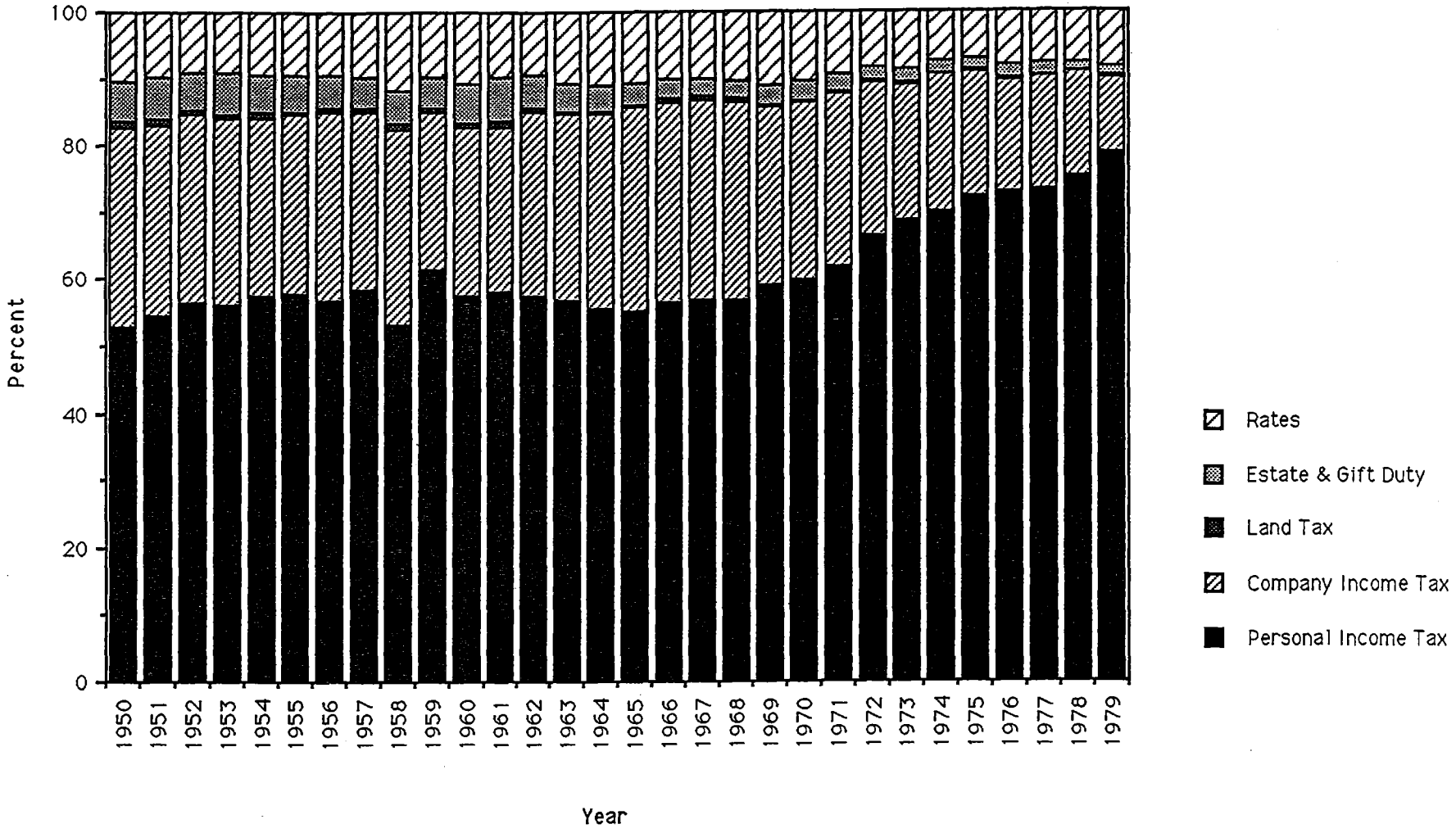
[1]Tonak, p.53.

Graph 3:1 Consitituent Components of Total Direct Taxes



'Labour Share'. Insofar as the amount of *direct tax* paid out of salary and wage payments is directly listed in the national accounts, there is no need to make assumptions in the manner Tonak has in establishing the 'Labour Share'. Total direct taxes are available, from which the percentage paid by labour can be established. This constitutes the 'Labour Share' of direct tax.

Whereas Tonak and Freeman use the labour share of *income* tax, the labour share of *direct* tax will be used in this study to apportion certain elements of state expenditure to labour.[1] However, it is evident from Graph 3:1 that income tax *is* the main constituent element of direct taxation anyway.[2] Company and personal income tax consistently constitute more than 80% of direct tax over the time-period surveyed in this study. Land tax is only a very small component in percentage terms of total direct tax. Land tax is at its highest level at 1.02% in 1950 and 1954, thereafter it does not exceed 1% of total direct tax. In any case, by its very nature, it is reasonable to assume that workers did not pay land tax. Similarly, estate and gift duty, which it is assumed workers did not pay either, is only a small component of total direct taxes. At its high point in 1961 at 6.68%, from the late 1960s this component does not exceed 3% of total direct taxes.

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[1]Indirect taxes are allocated to labour using a different procedure to Tonak and Freeman, who simply assume that the same proportion of indirect taxes are paid by labour as the labour share of income tax. See the discussion of indirect taxes below.

[2]The data for this graph, and all subsequent graphs, are located in Appendix Two. The graphs are numbered in accordance with the tables from which the data are drawn.

Direct Taxes on Government and Local Authority Trading Income

The national accounts deduct direct taxes from central government trading income, but not from trading income of local authorities.[1] It is assumed that no direct taxes are in fact paid on trading income of local authorities. This has been cross-checked with figures from the Planning Council, who calculate 'Total Trading Income' which comprises trading income both of Central Government and Local Authorities. From this category they subtract 'Direct Tax Paid by Trading Departments', which corresponds exactly to the figures for the same category in the national accounts.[2] This is taken as confirmation that no direct taxes are paid on local authority trading income.

Indirect Taxes

Total indirect taxes are listed in the national accounts. Of this total, it is necessary to estimate the portion attributable to labour. Faced with

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[1]In the 1957-58 National Income and Expenditure Accounts, Table 13 *Private Income and Incidence of Direct Taxation* deals only with *private* income, and thus "Excludes direct taxes paid by Government trading departments"(p.24). Direct taxes paid on central government trading income is available in the revenue accounts of the central government (Table 7. Item 4). Tables 13 and 7 are balanced in the following way. The direct tax totals that appear for each year in Table 7 (Item 1) include direct taxes paid on trading income by central government trading departments. Said taxes are listed again as Item 4 and are *deducted* from total taxation insofar as they have already been included in Item 1. Table 13 lists *private income minus direct taxes*, excluding direct taxes on central government trading income. Therefore: *Direct Taxes* (Table 13) + *Direct Taxes Paid by Trading Departments* (Table 7, Item 4) = *Total Direct Tax (Central + Local Government)* (Table 7).

[2]New Zealand Planning Council, Public Expenditure and its Financing 1950-79. June 1979, pp.46-50.

the same problem, Freeman simply assumes that workers pay the same percentage of indirect tax as their 'share in income tax', and he allocates indirect taxes to the category of 'Labour' on that basis.[1] Insofar as this is a somewhat crude assumption, a technique is required that allows greater precision in estimating the impact of indirect taxes on the working class in New Zealand.

Interestingly enough, until recently there has been a paucity of studies in New Zealand in this area. In 1980, Bedggood drew attention to the sinister implications of this state of affairs:

> The fact that no reliable information on the impact of indirect taxation upon income distribution is available in New Zealand is itself evidence of the bias in favour of the myth of redistribution.[2]

In a similar vein, Macrae notes:

> It is a reflection of the ostrich-like attitude of New Zealanders to income distribution questions that no research on the incidence of indirect taxation has been carried out for the post-war period.[3]

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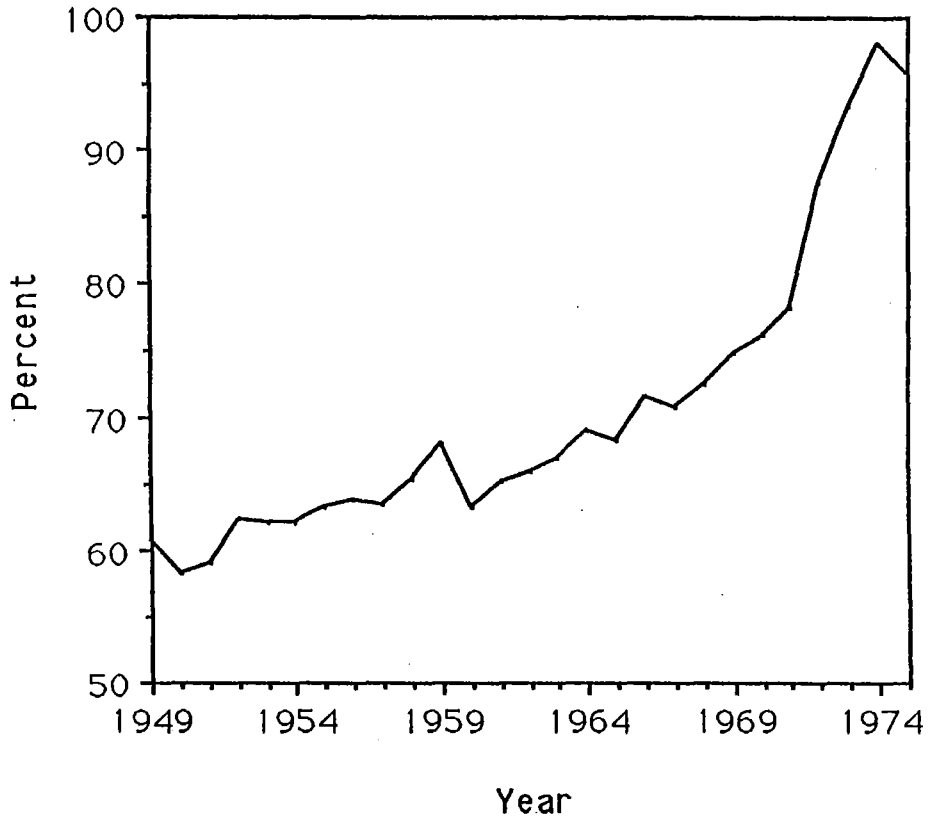
[1]Tonak takes the same approach for a portion of indirect tax (although it is not readily apparent from his paper which portion this is), the remainder he allocates *in toto* to non-labour.

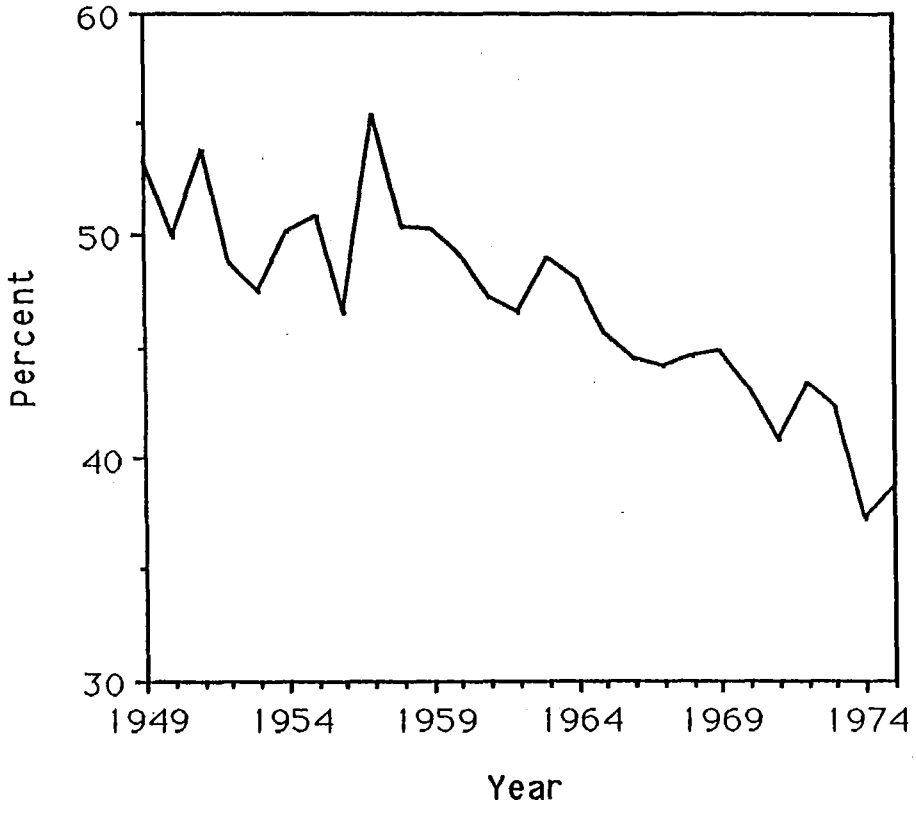
[2]Bedggood, p.100.

[3]J. Macrae, 'Income Distribution and Poverty in New Zealand', Social Class in New Zealand, ed. D. Pitt. Auckland, Longman Paul, 1977, p.49.

Graph 3:2 Labour Share of Consumption Expenditure



Graph 3:3 Lab. Share Ind. Tax. as % of Tot. Tax. on Lab. Inc.



Indeed, it is only since the advent of GST in 1986 that much work on the incidence of indirect taxes has been done.[1] The data in such studies, however, is not aggregated at a level which is useful for the task at hand, and in any case the time-periods they cover fall outside the years under consideration here.

To solve this problem, wage and salary payments as a percentage of total consumption expenditure, labelled *Labour Share of Consumption Expenditure* , is calculated and used as an empirical index of the amount of indirect tax paid by labour. It is assumed that the whole of salary and wage payments are spent on consumption goods i.e. that the payments wholly comprise *consumption expenditure.* The percentage of indirect taxes incurred by workers each year is taken to be the same as their share of consumption expenditure.

Given that indirect taxes are levied predominantly on *consumer goods,* using the labour share of total consumption to calculate the share of indirect taxes paid by workers is a valid procedure. It is, however, unsatisfactory in two respects. First, as is evident from Graph 3:2, it undoubtedly overestimates the portion of indirect taxes paid by salary and wage-earners, and this will distort the results to some extent. For instance, it is unlikely that salary and wage-earners did in fact pay over 90% of indirect taxes in 1973. But it is apparent from Graph 3:3

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[1] C. Scott, P. Goss and H. Davis, The Incidence of Indirect Taxes Volume One. Wellington, Victoria University Press, 1985. See also A. Broad and L. Bacica, The Incidence of Indirect Taxes Volume Two. Wellington, Victoria University Press, 1985. It should be noted that both studies were actually written in anticipation of the implementation of GST.

that 'Labour Share of Indirect Taxes' as a percentage of 'Total Taxes on Labour Income' *declines* through time anyway. Thus, even if the level of 'Labour Share of Consumption Expenditure' in the early 1970s leads to the assumption that over 90% of indirect taxes are paid by labour, in any case 'Labour Share of Indirect Taxes' only constitutes around 40% of 'Total Taxes on Labour Income'.

Second, the subsidiary effects of indirect taxes on the working class are not taken account of. Take the case of indirect taxes on new cars. Even if workers do not buy new cars, the level of indirect taxes is reflected in the price of second-hand cars bought by workers. To capture the true incidence of indirect taxes would prove a difficult task indeed, and this study does not purport to do so. Nonetheless, the procedure adopted here at least provides some indication of the proportion of total indirect taxes paid by the working class, and indeed it is more accurate than the indication that would be afforded by Freeman's technique.

Phase Three: Tonak and New Zealand

The third phase involves a simple operation: taxes calculated in the preceding phase are subtracted from gross incomes (GLI and GNLI) to give 'Labour After-Tax Income' (LATI) and 'Non-Labour After-Tax Income' (NLATI).[1] Depreciation allowances are also deducted from NLATI for the following reason.

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[1]Tonak, p.51.

The estimates of company income taken from the national income accounts require adjustment, for as Horsman points out, "The cost of capital goods and their replacement must be taken into account when considering profit from an enterprise."[1] Herein lies a problem: capital goods wear out at different rates and hence do not "fit conveniently into any given accounting period."[2] As a solution to this problem, "An estimate is therefore made of the cost of capital equipment used up in any one year, and this is the . . . *depreciation allowance* ."[3] Thus the depreciation allowance is the "part of the current years G.D.P. set aside for capital replacement."[4]

Although estimating the true level of net non-labour income has no actual bearing on the calculation of net-tax, it will nonetheless be carried out for the sake of interest. To this end, depreciation allowances must be deducted from GNLI. The justification for this course of action is presented by Freeman, who criticizes Tonak for not deducting depreciation allowances:

> Tonak records profit, both before and after taxes and benefits, without deducting capital consumption (depreciation). This procedure thus allocates gross, as opposed to net, domestic product to the two major classes.[5]

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[1]J. Horsman, Economics: An Introductory Graphic Analysis. Auckland, Longman Paul, 1984, p.264.
[2]*Ibid.*, p.264.
[3]*Ibid.*, p.264.
[4]*Ibid.*, p.264.
[5]Freeman, pp.31-32.

Freeman seeks a *precise* estimation of profit, and he criticizes Tonak's procedure because it "overstat[es] profit . . . by an amount equal to the fixed constant capital consumed during a year's production."[1] In light of this argument, Freeman deducts depreciation estimates listed in the British national accounts from company profits.

Depreciation allowances are defined in the New Zealand national accounts as:

> An estimate of the depreciation allowed as a deduction from gross incomes for taxation purposes. Also includes depreciation charges on owner-occupied houses and financial provision for depreciation by non-tax-paying Government trading undertakings. No allowance is made for depreciation charges on other national assets, e.g. roads, bridges, irrigation schemes, etc.[2]

The definition suggests that two 'rogue ' items are present: depreciation charges on owner-occupied houses, and a portion of the depreciation allowances of government trading departments. Owing to the fact that these items cannot be separately identified and systematically excluded, depreciation allowances deducted from non-labour income will be overestimated in their amount. However, insofar as NLATI is not a crucial variable in the calculation of net-taxes, this is not a cause for concern.

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[1]Freeman, p.32. Fixed constant capital is simply the Marxian term for the portion of capital laid out at the beginning of each production cycle to purchase capital goods.

[2]QENIE 1957-58, p.28. It should be noted that depreciation allowances are excluded from NIFC.

Phase Four: Tonak

The fourth phase involves the task of apportioning government expenditure to Labour (thereby estimating the social wage) and Non-labour. Tonak allots each of the items of government expenditure set out in the U.S. national income statistics either to Labour or Non-labour, or to both. In apportioning government expenditures, Tonak emphasizes that "non-labour" and "net-tax paid by non-labour" includes *both* "government transfers to the capitalist class" and "the state's own absorption of tax revenues for defraying costs of social reproduction as well".[1] This procedure is of considerable significance. Inclusion of these revenues (which as Tonak notes essentially take the form of the "government surplus or deficit") in the category of 'non-labour', imposes certain limits on his study.[2] Notably, he does "not attempt . . . to distinguish empirically between benefits/costs to capital and general social reproduction expenses".[3] This, he stresses, "is a very critical distinction in terms of its impact on capital accumulation".[4]

Empirically identifying net-tax paid by the capitalist class *independent of the state* would shed light on the extent to which the state 'subsidizes' the capitalist class by redistributing income to this class. Insofar as such a task requires a more sophisticated methodology, it is held over by Tonak to a subsequent investigation. The same methodological constraint applies to this project. Therefore, it is not

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[1]Tonak, p.51.
[2]*Ibid.*, p.51.
[3]*Ibid.*, p.51.
[4]*Ibid.*, p.51.

possible to analyse the effects of the redistributive activities of the state on capital accumulation. The picture will not be complete until this task is carried out, but it awaits further methodological innovations on the part of Tonak or theorists building on his work.

Tonak's analysis of government expenditure (and his solution to the small problem of estimating the social wage) is based on the following assumption:

> we can regard state activities and expenditures as directed towards the conditions of social reproductions [sic]. Within this, we can designate two types of activities: one set includes those in which the state directly supports reproduction of the working class, a second set of activities reproduces capital and the capitalist class.[1]

Tonak concentrates solely on the "first set of activities which directly support labour income and consumption through various kinds of government expenditures".[2] Labour income and consumption are not directly supported by the second set of activities, which are regarded by Tonak as *faux fraix* of the capitalist system.[3]

The categories of the American national accounts bear sufficient resemblance to the New Zealand system to allow for an adaptation of

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[1]Tonak, p.58.

[2]*Ibid.*, p.58.

[3]*Ibid.*, p.58. By way of an aside, Tonak explains the origin and meaning of the term 'faux fraix', which literally translates as 'false costs'. Having originated in the work of Adam Smith, the French pre-Marxian political economists used it to designate "expenses not directly incurred in the course of production"(p.71, n.10).

Tonak's method of dealing with government expenditure, but his categorization is largely based on an analysis previously undertaken by Shaikh.[1] Such a Marxist analysis of the items of government expenditure presented in New Zealand's national accounts has not been undertaken before. In the absence of such a study, criteria must be established by which to judge whether these items accrue to labour, non-labour, or are shared both between labour and non-labour.

Government expenditure is not classified in the national accounts according to the class which receives it.[2]. On the one hand, categories such as government expenditure on unemployment benefits are easily dealt with. It is a modest assumption to regard workers as the group of individuals that bear the brunt of unemployment, insofar as the capitalist system requires a reserve army of labour, as is evident in the case of recurrent structural unemployment in periods of capitalist crisis. Hence, state expenditure in the form of unemployment benefits can be regarded as accruing solely to the working class - in this case the broad category of 'labour'.

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[1]A. Shaikh, Marxian Categories and National Income Accounts. Unpublished Paper, 1980.

[2]Freeman writes: "State spending differs from state income in one fundamental respect, which is that the identity of the beneficiaries cannot be determined economically. By this we mean that there is no state account, no set of ledgers in which we can find entered the amount of service each citizen or guild has had from the state, in the same way that we can ascertain how much tax they have paid. This is not just a failure of accounting method. The real difficulty arises because the state forms its income into a common fund. The identity of the private contributors to the state is destroyed in the process of setting up this fund. We cannot say that one part of the fund is reserved for income from wage-earners, or spending on wage-earners, and another for property-owners"(pp.18-19).

Similarly, military expenditure may be regarded as accruing solely to non-labour insofar as its object is to secure the existence of the capitalist system. Cases such as health expenditure are, however, more difficult; only the portion of state spending on health *consumed by the working class* can be regarded as part of the social wage. A technique is therefore required to differentiate health and similar expenditures into a working class (labour) component and a capitalist class (non-labour) component.

Freeman argues that state expenditure is governed by political decisions at the level of the state, and not by taxes paid, nor in the immediate sense by the law of value (although in the final instance the law of value must set the limits within which state expenditure is disbursed).[1] There being no strictly 'economic' solution to this problem, "it is only possible to ascertain which classes receive which benefits . . . by studying the functions of state expenditure"[2] Thus Freeman, after Tonak, divides state spending into three categories on the basis of its function:

> (1) Spending exclusively benefitting property [non-labour], such as state grants, military spending, and also . . . spending on the police, etc., whose function is the protection of property.
>
> (2) Spending exclusively benefitting wage-earners, such as [the] unemployment benefit.
>
> (3) State spending on the 'public as a whole'; such as health, education, etc.[3]

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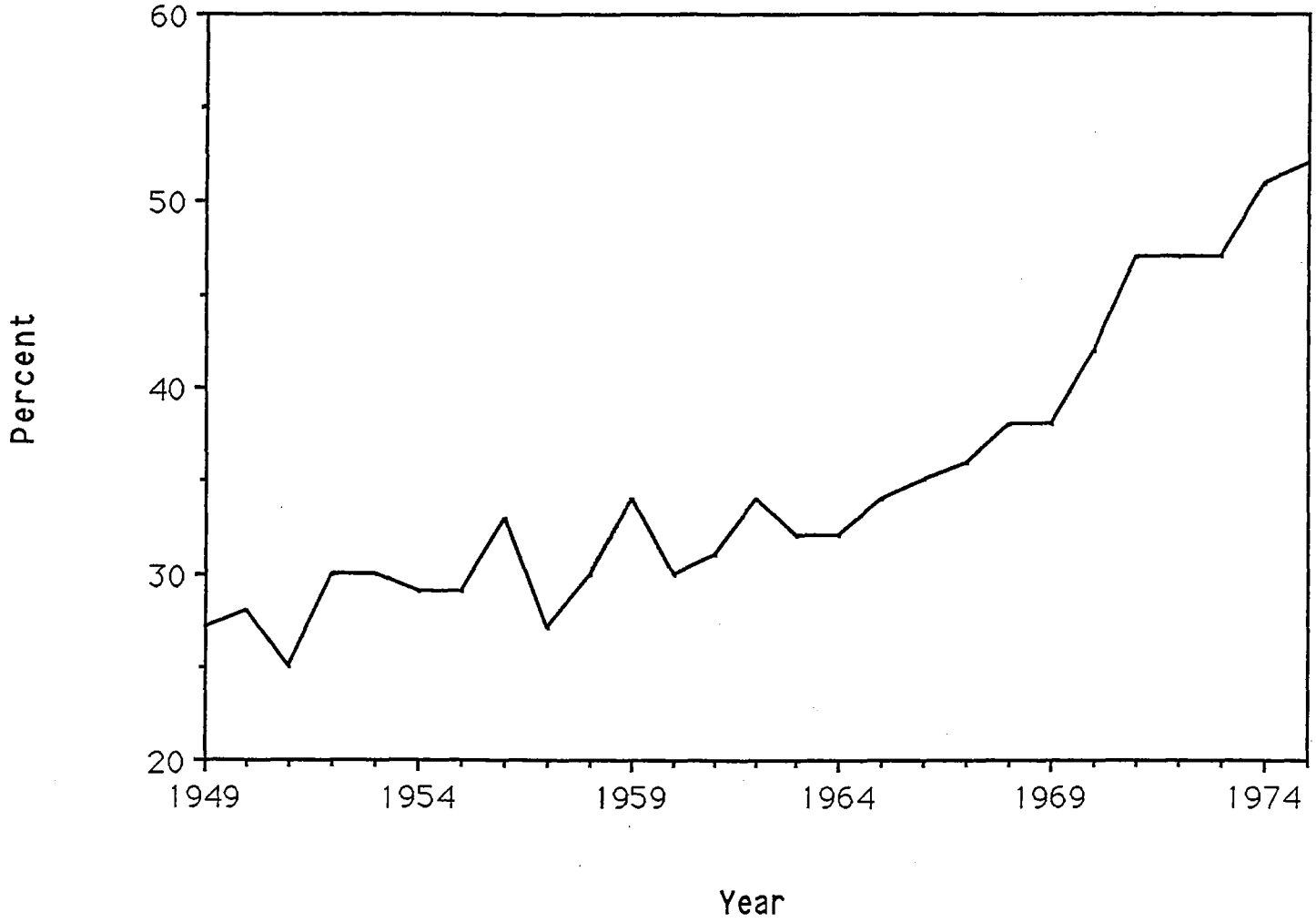
[1] Freeman, p.19.
[2] *Ibid.*, p.19.
[3] *Ibid.*, p.19.

Graph 3:4 Labour Share of Direct Tax



The third category is labelled 'Shared' expenditure (in the sense of being shared between labour and non-labour). As Freeman notes: "This transfers value to both classes, and we have to estimate what proportion goes to which class."[1] Tonak estimates the proportion of shared expenditures (education, health and so forth) accruing to labour on the basis of the same figure he uses to calculate the labour share of total personal income tax, namely the "share of labour income in adjusted personal income".[2] Freeman follows suit: these expenditures are divided in his study according to the 'income tax ratio', i.e. the labour share of income tax.[3] In this study, 'shared' expenditures will be allocated to labour according to the labour share of direct tax, which is plotted in Graph 3:4. To illustrate this technique, insofar as the labour share of direct tax is 52% in 1975, workers are considered to have consumed 52% of 'shared' state expenditures in that year. This procedure is followed for each year in the data series; while it is somewhat crude, it is necessary in order for the empirical analysis to proceed.

The foregoing framework is sufficiently general for all items of expenditure by the New Zealand state to be subsumed into one of the three categories. The criterion employed by Tonak in classifying the components of state expenditure included either completely or partially in the category of labour is that they must "directly support labour

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[1]Freeman, p.19.
[2]Tonak, p.59.
[3]Freeman, p.39.

income and consumption".[1] This rule of thumb will be applied to the categories of New Zealand state expenditure. State expenditure which partially supplements labour income and consumption is classified as being shared between labour and non-labour, insofar as this expenditure represents "social consumption in general".[2] The classification adheres to Freeman's approach in classifying "all government spending which is not specifically allocated to wage-earners as a residual and part of property [non-labour] income".[3]

Tonak's method solves the small problem of estimating the social wage in every respect except whether state *capital* expenditures are consumed by wage-earners. It is not immediately apparent from Tonak's and Freeman's analyses whether government capital expenditure is apportioned to labour and non-labour in the same fashion as current expenditure. For example, Freeman merely cites the general categories of 'Health', 'Education' and so forth without stating whether they include *capital* expenditure or are restricted merely to *current* expenditure. Similarly, Tonak makes no mention of government capital expenditure - whether he includes it in his study is a moot point.

A cursory inspection of the American National Income and Product Accounts and their British counterparts would of course reveal the way in which each theorist deals with government capital expenditure. In the absence of these accounts being available, however, the strategy that has

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[1]Tonak, p.58.
[2]Shaikh, p.37 (in Tonak, p.59).
[3]Freeman, p.14.

been adopted in this study is to *exclude* government capital expenditure. The reasons for this are twofold. First, constraints imposed by the data available in New Zealand's national accounts prevent government capital expenditure from being included in the social wage. Second, it is in any case *conceptually* incorrect to include government capital expenditure in the social wage. These points will be elaborated, each in turn.

It was established previously that items of capital expenditure do not necessarily wear out in the year in which they are funded. To take an arbitrary example, assume that five million dollars is spent in a given year by the state on the construction of a road, but that the road does not wear out for a further 20 years. Abstracting from whether workers 'consume' government capital expenditure (it will subsequently be argued that they do not), this public asset is not wholly 'consumed' in the year in which the expenditure that finances it is laid out. It will be recalled that the yearly rate at which a capital item wears out is given by the depreciation allowance (at least it is *approximated* by the depreciation allowance). Thus, only the portion of the *depreciation allowance* reflecting workers' consumption of the item in question should be allocated to labour.

The national accounts revenue account lists and itemizes only *current* expenditure, "and therefore excludes capital receipts and payments of all kinds".[1] Gross capital formation (expenditure on capital goods) both

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[1]OENIE 1957-58, p.14.

government and private is available in the national accounts under the category of "Gross Capital Formation in New Zealand".[1] However, depreciation allowances on government capital expenditure are not available.

Even if the problem of estimating depreciation allowances is temporarily disregarded, another arises: *gross* capital formation by the government is not functionally classified in the national accounts. If total government capital expenditure was to be included in this study, Tonak's method requires that it be functionally classified in the same manner as *current* expenditure, and apportioned to 'Labour', 'Non-labour' or 'Shared', on the basis of its function.

Functional estimates are attempted by the Planning Council in their publication entitled "Public Expenditure and Its Financing: 1950-1979", but the calculation of capital formation poses thorny problems. The Planning Council have used estimates independently assembled, which, though providing general trends in capital formation, must be treated with caution. As they themselves note: "The fact that the Government Statistician does not publish a functional analysis is an indication of the difficulty of putting together consistent, reliable and

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[1]This category "Represents the value of gross investment by private enterprise and by government in durable capital goods in New Zealand, including in this sense, capital improvements to land. It also includes net investments in stock in any given year, i.e. the change in stocks of goods and materials between the beginning and end of each year .... The valuation is gross, i.e. before deduction of allowances for depreciation and obsolescence"(OENIE 1957-58, p.29). This category includes capital expenditure by local authorities, the amount of which is separated out in Table 6, Item 46.

comprehensive estimates".[1] This said, the sources of the estimates used are mainly reports by government departments.

Furthermore, it would be necessary to discover the rate at which at which each category of public capital goods depreciates. Given the lengths the Planning Council went to in arriving at their functional estimates of *gross* capital formation (which in any case are not very accurate), estimation of depreciation allowances would prove a formidable task. There appears to be no basis from which this could be done, beyond arbitrarily *assuming* rates of depreciation. Such speculative activity is beyond the scope of this study.

The more fundamental obstacle to the inclusion of government capital expenditure in this study is the whole notion that workers 'consume' a portion of this expenditure - which, it will be argued, is an incongruous proposition. It is useful at this point to draw an analogy between capital expenditure by the state, and capital expenditure by industrial capitalists. In the private sector, the wearing out of capital goods is incurred by the owners of these goods (i.e. the capitalist class) as a necessary expense in the course of capitalist production. As *fixed constant capital*, these goods depreciate by "transfer[ring] value to...product[s] over time".[2] Similarly, whether to include government

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[1]NZPC, p.67. The Planning Council note: "No attempt is made to reconcile the official aggregate with the sum of identified functional estimates. Instead any dollar discrepancy is simply included in 'Other' as a residual"(P.67). The category of 'Other' therefore includes *inter alia* the difference between the capital formation aggregate in the National Accounts and the Planning Council's own figures.

[2]Freeman, p.29.

capital expenditure must be decided on the basis of the class that is considered to own state property. Workers can only be considered to 'consume' government capital expenditure if they own the state property in question. This proposition, however, contradicts the fundamental tenets of Marxist analysis at every point.

Even though Freeman makes no mention of government capital expenditure, he does draw attention to the difficulties involved in identifying the owners of state property: "The private origin of its [the state's] income has been obliterated and those who have paid its taxes have no individual claim on what they have paid."[1] This raises problems in deciding the class to which state property belongs:

> If . . . [state property is] neither owned by the wage-earners nor by property-owners, then we have to conclude either that the state's employees are in fact its owners, an independent class or estate in its own right, or that the state is in some sense the joint property of all taxpayers.[2]

The former conclusion is absurd, and the latter is essentially bourgeois ideology. Nonetheless, insofar as the state is under the control of the capitalist class, Freeman "conclude[s] that state property . . . [is] in the last analysis a form of capitalist property."[3] For the purposes of this study, it will be assumed in like fashion that state property is indeed 'capitalist property'.

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[1]Freeman, p.13.
[2]*Ibid.*, p.13.
[3]*Ibid.*, p.13.

In light of the foregoing, even if depreciation allowances were available (which they are not), an argument could be made that government capital expenditure still ought to be excluded from this study. Undoubtedly, to some readers the decision to exclude capital expenditure from the social wage will be contentious. Certainly, it is not without problems. For instance, the *outlay* by the state in providing a social wage necessarily includes both current and capital expenditure. To take just one example, the provision of a social wage in the sphere of education (so-called 'free' education) requires not only current expenditures such as the wages of teachers, but also capital expenditure in the form of the land on which schools are built and the school buildings themselves. Suffice to say that it is necessary to return to the issue of ownership of these forms of property, and in this study they are regarded as being owned by the capitalist class.

Phase Four: New Zealand

Classification of Government Expenditures by Function

All government expenditures are classified according to the three categories proposed by Freeman, using the criteria established previously.

(1) Non-Labour

General administration
Interest on general government debt paid overseas
Law and order
Development of primary and secondary industries
Defence and war
Interest on general government debt paid in New Zealand
Subsidies
Interest on local authority debt paid in New Zealand
Net transfers to rest of world

(2) Labour

Monetary social security benefits and pensions

(3) Shared

Health
Education
Non-monetary social security benefits
Other social services
Rehabilitation
Maintenance of public works and services
Local authority cost of provision of goods and services
Transfers to local authorities
Family benefit advances.

(1) State Expenditure Benefitting Capital (designated 'Non-labour')

General Administration represents the use of taxes to meet expenses incurred in maintaining the state. These funds do not accrue to labour in

the form of income, nor are they, to use Tonak's phrase, part of "workers' consumption".

Interest on the General Government Debt Paid Overseas is listed in the national accounts "as a payment for a final service".[1] It does not mark an addition to income accruing to workers, nor does it increase their consumption levels. Following Tonak, this category is considered to be part of the costs met by the state in effecting social reproduction.

Law and Order. This category represents state expenditure directed to the end of safeguarding private property. As such, it "represents protection of private property, (persons) and social rules and not consumption of any use-values as such".[2]

Development of Primary and Secondary Industries may be regarded as a form of payment to the capitalist class. It does not augment workers' income nor their levels of consumption.

Defence and War. Periodic wars are necessary aspects of the functioning of capitalism. This category represents expenditure directed to the end of defending private property by military means.[3]

Interest on General Government Debt Paid in New Zealand is classified in the national accounts as a transfer payment. The Planning Council

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[1]OENIE 1957-58, p.31.
[2]Shaikh, p.36 (in Tonak, p.59).
[3]Tonak, p.59.

argue it could equally be "regarded as a payment for the service of money advanced to the public sector by the private sector and therefore, a part of public consumption."[1] In this view, a portion of this interest could conceivably return to workers indirectly, depending on how the debt is financed and where workers lodge their savings. Insofar as this study is not concerned to precisely "'close the circuit' of income circulation", to use Freeman's phrase, it is assumed that this category does not influence the income or consumption levels of workers.[2]

Subsidies are payments by the state to various fractions of the capitalist class to the end of reducing their input costs. The various types of subsidies are classified in the national accounts as follows: (a) shipping, transport and incidental (b) coal production and distribution (c) primary production (d) essential clothing and foodstuffs (e) Miscellaneous (f) housing suspensory loans. By lowering input costs, subsidies give rise to a reduction in the price of commodities produced by the subsidized industry. It could be argued that subsidized industries producing wage-goods effectively subsidize workers' levels of consumption and increase their discretionary income. This would, however, prove exceedingly difficult to estimate. Furthermore, the increase in workers' levels of consumption (or discretionary income) is only an *indirect* result of state spending, insofar as the initial payment is made to the capitalist class.

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[1]NZPC, p.10.
[2]Freeman, p.4.

Interest on Local Authority Debt Paid in New Zealand is designated a transfer payment in the national accounts. It is classified on the same basis as the item 'Interest on the General Government Debt Paid in New Zealand', as a cost incurred by the regional arm of the state in effecting social reproduction.

Net Transfers to Rest of World represents the dealings of the bourgeois state at an international level, albeit for so-called 'humanitarian' concerns (foreign aid and so forth).[1]

(2) State Expenditure Benefitting Labour (designated 'Labour').

Monetary Social Security Benefits and Pensions includes unemployment benefits, sickness benefits, age benefits, family allowances, and so forth. As transfer payments, benefits and allowances "represent direct cash payments to the individual for no current service to the state."[2] They directly augment labour income, and are assumed to accrue only to labour.

In the same manner as Freeman's study, monetary social security benefits are the only components of state expenditure regarded as unambiguously accruing to labour. This approach differs from that of

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[1]The following description of this category is given in the national accounts: "Transactions included herein concern Government contributions to Colombo Plan, assistance and relief supplies to various international relief organizations and subscriptions to the United Nations, its agencies and similar organizations"(OENIE 1973-74, p.21). The category appears as early as 1938 (according to the 1964-65 accounts) but is listed systematically only from 1950 onwards.
[2]OENIE 1957-58, p.31.

Tonak, who is able to itemize expenditures *within* the broad category of benefits and pensions, excluding some of the sub-categories from Labour Income.[1] It is necessary to briefly outline the reasons Freeman cites for his own approach, and the justification for adopting it over Tonak's.

Freeman notes that there are two types of social security payments in the U.K. and U.S.:

> (1) Pensions, unemployment benefits etc., which represent "a return of income given to the state during a working life and [are] designed to provide a safety-net for illness or short-term unemployment, and some form of material support during retirement".[2]
>
> (2) "'Supplementary benefits', which like welfare payments are designed to sustain people who have no other means of support, for whatever reason".[3]

The second type of benefit covers individuals in situations of chronic unemployment, those unemployed since leaving school (never having worked), solo parents and so forth.

Freeman notes that Tonak, drawing on Shaikh's invaluable work, does not regard the second type of payment as accruing to workers insofar as these payments mark:

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[1]Tonak, pp.59-60.
[2]Freeman, p.20.
[3]*Ibid.*, p.20.

> neither an addition to the income of employed workers and their families, nor a deferred portion of a worker's own past labour income which is now drawn on to mediate a temporary period of unemployment. [Instead these expenditures represent] a payment to those individual or families who remain separated from employment, and the payments themselves do not depend on any past contributions of the recipients.[1]

In this light, Tonak excludes such payments from employed workers' income. Again relying on Shaikh, payments of the first type (unemployment benefits, pensions, etc.) Tonak regards "completely as labour income since 'they *do* represent a reflux of forced saving out of past labour income' in order to make both retirement and unemployment financially feasible for the capitalist state".[2]

On the basis of these assumptions, Tonak's procedure - which Freeman conveniently summarizes - is as follows:

> He constructs two indices of transfer ratio, . . . one taking into account welfare payments as if they went to wage-earners [and one not]. Thus his main welfare ratio is designed to show the income specifically due to *wage* income, rather than to the working class or the wage-earning classes in a broader sense.[3]

Freeman argues that to place such emphasis on a transfer ratio which excludes those permanently out of work in Britain, would "seriously distort the economic effects of the crisis which have thrown a huge army of previously employed workers out of work, and which finances

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[1]Shaikh, pp.36-37 (in Freeman, pp.20-21).

[2]Tonak, p.60 (quoting Shaikh, p.37).

[3]Freeman, p.21. Note that the transfer ratio is merely another means of expressing the level of net-tax. A description of the manner in which the transfer ratio is constructed is given below.

them out of large welfare payments".[1] He further justifies his inclusion of social security benefits in the income of wage-earners on the basis that:

> social security benefits are directed to the reproduction of labour power in its broadest sense, because part of the maintenance of labour power involves maintaining a reserve army of the unemployed.[2]

On the basis of this latter point, it is valid to follow Freeman in including social security benefits in labour income. In any case, Tonak's procedure is not a viable option for the present study insofar as the government expenditure statistics are not differentiated in a way that would allow detailed sub-classifications of expenditure on benefits to be made. Whereas Freeman generates a second transfer ratio in accordance with Tonak's, it is not possible to do the same *vis-a-vis* New Zealand. One comparative element is thereby excluded, but the other is retained. Inclusion of social security payments in labour income yields Tonak's 'welfare-adjusted' transfer ratio, which accords with the transfer ratio constructed in this study and the transfer ratio constructed by Freeman, thereby establishing a strong empirical basis for comparison.

(3) State Expenditure Shared Between Labour and Non-labour (designated by 'Shared').

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[1] Freeman, p.21.
[2] *Ibid.*, p.21.

To reiterate, the rationale for including the following items in the 'shared' category is that they represent 'social consumption'. The following discussion is limited to a brief description of each of the non-obvious items.

Health and *Education* are self-evident.

Non-Monetary Social Security Benefits. It is noted in the national accounts: "The institution of these benefits merely represent a change from direct payment by the individual for goods and services purchased, to a system whereby the State, acting as an intermediary third party, collects the payments by way of taxation and pays it over to the supplier in return for goods and services provided to the individual."[1] These are primarily medical benefits, as demonstrated by their subsequent subsumption into the general category of 'Health' in 1957.

Other Social Services is treated as a residual item. It is unlikely that these expenditures accrue solely either to labour or non-labour.

Rehabilitation represents expenditure on rehabilitation schemes (e.g. farming and education) for war veterans. Even though it was argued above that members of the armed forces should not be included in the category of labour, the bulk of this expenditure undoubtedly accrues to veterans of the second world war, many of whom were conscripted

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[1]OENIE 1957-58, p.31.

workers. For this reason, it is appropriate to locate this item in the 'shared' category.

Maintenance of Public Works and Services is classified as a *current* expenditure in that it represents "Maintenance of roads and public works as opposed to construction and renewal which is treated as capital expenditure."[1] This item is regarded as 'shared' expenditure insofar as workers as well as capitalists 'consume' roads and public assets such as bridges, through their use of vehicles.[2]

Local Authority Cost of Provision of Goods and Services represents current expenditure by local authorities. This item is not classified by function in the national accounts. In allocating it to the 'shared' category, it has been assumed, on the basis that the current and capital expenditure of *general* government intersect in similar areas, that the elements of current expenditure mirror local authority capital expenditure. The main components of local authority capital expenditure are identified by the Planning Council: "roading construction and maintenance, water supply, airport development, electricity supply, and public passenger transport."[3] These fall largely into the category of shared expenditure, and in the absence of a detailed functional analysis, this item will be so classified.

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[1]OENIE 1957-58, p.31.
[2]Tonak develops a 'petrol consumption ratio' as an indicator of the extent to which wear and tear on roads can be attributed to workers. Freeman likewise develops a 'transport ratio'. Unfortunately, there is no comparable basis in the New Zealand data from which to develop a similar ratio.
[3]NZPC, p.26.

Transfers to Local Authorities is composed of "Transfers to hospital boards by way of maintenance and capital subsidies. . . . Transfers from Consolidated Fund, Public Works Account, and National Roads Fund for maintenance and construction of highways and subsidies to various local authorities."[1] It is evident from this definition that the category includes an element of capital expenditure, the amount of which cannot be separately identified and systematically excluded. This item, therefore, is the only exception to the rule of excluding capital expenditure from the calculation of the net-tax time-series. It is classified as a 'shared' expenditure for the same reason as 'Maintenance of Public Works and Services' above.

Family Benefit Advances. This item appears for the first time in the national accounts in 1959. The advance of family benefits by the state was provided for by the Family Benefits Act of 1958. It enabled parents with a minimum of two children to capitalize the benefit in order to buy, extend, or repay the mortgage on their first house. An amendment in 1962 allowed parents renting from the state the option of purchasing their houses.[2] It is likely that a portion of the expenditure denoted by this item accrues to the capitalist class, hence its inclusion in the category of 'shared' expenditure.

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[1]OENIE 1957-58, p.31.
[2]The New Zealand Book of Events, ed. B. Fraser. Auckland, Reed Methuen, 1986, p.318.

Phase Five: Tonak and New Zealand

Calculation of Net-Tax

Net-tax is calculated using the empirical results generated in Phases Two and Four. Government expenditure received by labour (the social wage) is subtracted from taxes paid by labour, yielding net-tax paid by labour.[1] The net-tax data set empirically quantifies the amount of tax the working class pays to the state, relative to what this class receives back from the state in the form of the social wage. If government expenditure received (the subtrahend) is less than taxes paid (the minuend), net-tax paid by labour will have a positive value. If government expenditure received is greater than taxes paid, net-tax will have a negative value.

A positive value indicates, as Tonak notes, "a net income transfer from labour to non-labour", to wit "workers paid more in taxes than they received in benefits or income from the state."[2] A negative value indicates the "net income transfer" has been in the opposite direction, i.e. from non-labour to labour. Net-tax can also be expressed in terms of a 'transfer ratio', by dividing taxes paid by labour by government expenditure received. A value in excess of unity represents a transfer of income from labour to non-labour, a value below unity the opposite.

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[1]It will be noted from Appendix 3.1 that the social wage is henceforth labelled 'Labour Portion of Total Government Expenditure' (LPTGE), and total taxes paid by labour is henceforth labelled 'Total Taxes on Labour Income' (TTLI).
[2]Tonak, p.61.

In the case of net-tax having a positive value, Tonak cautions:

> 'non-labour', in this context, consists of not only the capitalist class and non-working members of the working class, but also the state itself. Therefore, the net income transfer from labour to non-labour does not imply that the net-tax paid by the capitalist class has always been negative.[1]

Similarly, Tonak's methodological caveat applies to this study (although it will be recalled that, insofar as working class individuals who do not work are included in the category of 'labour', 'non-labour' comprises only the capitalist class and the state). The capitalist class need not have paid less in taxes than they received in the form of state expenditure for net-tax paid by labour to have a positive value. To reiterate, this limitation allows a time series quantifying net-tax paid to be calculated only for labour, and not for the capitalist class. In any case, this is all that is required for our immediate purposes.

(3.4) Summary

This chapter concludes by drawing attention to the main differences between the application of Tonak's net-tax methodology to New Zealand attempted herein and Tonak's own study, along with that of Freeman. This is of particular importance because the results of this analysis will be compared both to Tonak's and Freeman's results in the next chapter in order to shed light on international similarities and differences in the state's impact on inter-class income redistribution.

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[1]Tonak, p.61.

The differences between this study and Tonak's are threefold. First, on the basis of Freeman's argument, depreciation allowances have been deducted from company income. However, it was pointed out earlier that this has no real effect on the estimation of net-tax, but it does for the sake of interest provide a closer estimation of net non-labour income than Tonak's study. Second, again following Freeman, social security benefits are included in labour income. Tonak, on the other hand, excludes a portion of social security benefits from labour income, but he generates another data series in which they are completely included in labour income, thereby preserving a basis for comparison with the data generated in this study. Third, the labour share of indirect taxes is calculated in this study using a quantity termed 'Labour Share of Consumption Expenditure', whereas both Tonak and Freeman use the labour share of income tax for this purpose.

Additionally, it must be reiterated that the way in which government capital expenditure is dealt with by Tonak and Freeman cannot be ascertained, and that it is in fact excluded from this study. Under the assumption that it is correct to do so, the differences between this study and Tonak's and Freeman's are not great. This enables the claim to be made that the time series generated on the basis of this chapter does correspond, if not to the letter then at least as closely as the NIFC data-base allows, to Tonak's innovative concept of 'net-tax'.

Appendix 3.1: Net-Tax Methodology[1]

Phase 1: Allocation of Gross Incomes to Labour and Non-Labour[2]

(1) Gross Labour Income

(Table 3)	Salary and Wage Payments (I1)	
GLI		Gross Labour Income

(2) Gross Non-Labour Income

(Table 3)	Pay and Allowances of Armed Forces (I2)	
	+Rental Value Owner Occupied Houses (I3)	
	+Other Personal Income (I4)	
	+Company Income (I5)	
	+Govt. & Local Authority Trading Income (I6)	
GNLI		Gross Non-Labour Income

[1]The categories are identified and presented in a manner adapted from the works of Freeman and Tonak. The source of all statistical categories is 'Official Estimates of National Income and Expenditure 1957-58'. All tables referred to derive from this source. Figures such as (I1) refer to items within a table.

[2]Figures for GLI and GNLI have been taken from the category of National Income at Factor Cost, from which have been excluded Item 7 'Lump Sum Payments', and Item 8 'Public Debt Interest'. Item 13, 'Depreciation Allowances', though not a part of NIFC, is deducted at Phase Three for reasons outlined previously.

Phase 2: Allocation of Taxes to Labour and Non-Labour

(1) Direct Tax

(1.1) (a) Total Direct Tax on GLI and GNLI

(Table 13) Direct Taxes on Salaries and Wages

+Direct Taxes on Pay and Allowances of Armed Forces

+Direct Taxes on Other Personal Income (includes rental value of owner-occupied houses)

+Direct Taxes on Company Income

+Direct Taxes on Central Govt. Trading Income (Table 7. I4)

TDT Total Direct Tax on GLI and GNLI

(1.1)(b) Direct Taxes on Labour Income

Direct Taxes on Salaries and Wages

DTLI Direct Taxes on Labour Income

(1.1)(c) Direct Taxes on Non-Labour Income

Direct Taxes on Pay and Allowances of Armed Forces

+Direct Taxes on Other Personal Income

+Direct Taxes on Company Income

+Direct Taxes on Central Govt. Trading Income

DTNLI Direct Taxes on Non-Labour Income

(1.2) Labour Share of Direct Taxes

DTLI/ Direct Taxes on Labour Income/

TDT Total Direct Tax on GLI and GNLI

LSDT Labour Share of Direct Taxes

(1.3) Non-Labour Share of Direct Taxes

DTNLI/ Direct Taxes on Non-Labour Income/

TDT Total Direct Tax on GLI and GNLI

NLSDT Non-Labour Share of Direct Taxes

(2) Indirect Tax

(2.1) Labour Share of Indirect Taxes[1]

TINT (Table 11) Total Indirect Taxes

*LSCE/100 *Labour Share of Consumption Expenditure/100

LSIT Labour Share of Indirect Taxes

(2.2) Non-Labour Share of Indirect Taxes

TINT Total Indirect Taxes

-LSIT -Labour Share of Indirect Taxes

NLSIT Non-Labour Share of Indirect Taxes[2]

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[1]'Labour Share of Consumption Expenditure' is total salary and wage payments as a percentage of total consumption expenditure.

[2]NLSIT is calculated as a residual category, i.e., as the amount remaining after Labour Share of Indirect Taxes (LSIT) has been deducted from Total Indirect Taxes (TINT).

(3) Direct Tax + Indirect Tax.

DTLI	(3.1) Direct Taxes on Labour Income
+LSIT	+Labour Share of Indirect Taxes
TTLI	Total Taxes on Labour Income

DTNLI	(3.2) Direct Taxes on Non-Labour Income
+NLSIT	+Non-Labour Share of Indirect Taxes
TTNLI	Total Taxes on Non-Labour Income

Phase 3: Adjustment of Gross Incomes For Effects of Taxes

(1) Labour After-Tax Income

GLI	Gross Labour Income
-TTLI	-Total Taxes on Labour Income
LATI	Labour After-Tax Income

(2) Non-Labour After-Tax Income

(2.1) GNLI	Gross Non-Labour Income
-TTNLI	-Total Taxes on Non-Labour
NLATI(a)	Non-Labour After-Tax Income(a)

(2.2) NLATI(a)	Non-Labour After-Tax Income(a)
-DPAL	-Depreciation Allowances (Table 3. I13)
NLATI(b)	Non-Labour After-Tax Income(b)

Phase 4: Allocation of Government Expenditure to Labour and Non-Labour

(1) Government Expenditure Accruing to Labour Alone

Monetary Social Security Benefits and Pensions

GEALA Government Expenditure Accruing to Labour Alone

(2) Government Expenditure Accruing to Non-Labour Alone

General Administration
+Interest on General Government Debt Paid Overseas
+Law and Order
+Development of Primary and Secondary Industries
+Defence and War
+Interest on General Government Debt Paid in New Zealand
+Subsidies
+Interest on Local Authority Debt Paid in New Zealand
+Net Transfers to Rest of World

GEANLA Government Expenditure Accruing to Non-Labour Alone

(3) Government Expenditure Shared Between Labour and Non-Labour

Family Benefit Advances

+Health

+Education

+Non-monetary Social Security Benefits

+Other Social Services

+Rehabilitation

+Maintenance of Public Works and Services

+Local Authority Cost of Provision of Goods and Services

+Transfers to Local Authorities .

SGE Government Expenditure Shared Between Labour and Non-Labour

(4) Labour Portion of Shared Government Expenditure [1]

SGE Government Expenditure Shared Between Labour and Non-Labour

*LSDT *Labour Share of Direct Taxes .

LPSGE Labour Portion of Shared Government Expenditure

(5) Labour Portion of Total Government Expenditure

LPSGE Labour Portion of Shared Government Expenditure

+GEALA +Government Expenditure Accruing to Labour Alone

LPTGE Labour Portion of Total Government Expenditure

[1] SGE is apportioned to Non-Labour according to 'Labour Share of Direct Taxes' (LSDT).

(6) Total Government Expenditure

GEALA	Government Expenditure Accruing to Labour Alone
+GEANLA	+Government Expenditure Accruing to Non-Labour Alone
+SGE	+Government Expenditure Shared Between Labour & Non-Labour
TGE	Total Government Expenditure

Phase 5: Estimation of Net-Tax Paid by Labour[1]

(1) Net-Tax

(1) Total Government Expenditure (TGE)	(2) Labour Portion of Total Govt. Exp. (LPTGE)	(3) Total Taxes on Labour Income (TTLI)	(4) Net-tax (3)-(2)

(2) Transfer Ratio

(1) Labour Portion of Total Govt. Exp. (LPTGE)	(2) Total Taxes on Labour Income (TTLI)	(3) Transfer Ratio (2)/(1)

[1]After Tonak, p.62.

Chapter Four: Net-Tax As An Empirical Quantity

(4.1) Introductory Remarks

In the preceding chapter the methodology developed by Tonak to calculate *net-tax* and the *transfer ratio* was outlined, along with the techniques used in applying this methodology to a data set drawn from New Zealand's national accounts. Having empirically operationalized the 'net-tax' concept, and having struck the transfer ratio, this chapter will be given over to reporting and commenting on the results obtained.

A remark is briefly required on the manner in which the data will be analysed. Tonak does not provide any basis from which to explain the direction and degree of income redistribution indicated by the transfer ratio constructed in his study, which proceeds as the development of the net-tax methodology and its application to a set of data, discrete from wider economic and political trends in the United States.[1] While the primary object of this thesis - tracing the pattern of inter-class income redistribution effected by the state in New Zealand - does not necessarily require fluctuations in the transfer ratio to be correlated with broader economic and political developments, the veracity of the

[1]At least this is the case in the published text on which I rely. Although his doctoral dissertation is unavailable as yet, its abstract suggests that he does not attempt to explain his data with reference to these variables, instead opting for a quantitative analysis of the impact of net-taxes on the wages of productive workers.

data and the overall utility of the method will be enhanced if this task is carried out.

From a Marxist point of view, an explanation of trends in the transfer ratio requires a materialist analysis of the historical context in which the curve is 'located'. At the broadest level, the principles of historical materialism require that the historically contextualized links between the redistributive activities of the state (as an element of the superstructure) and the dynamics of capital accumulation in this period be drawn out. Thus, the multiplicity of events on which attention might otherwise be focussed will be set aside in favour of tentatively tracing the links between movements in the transfer ratio and economic fluctuations in the years 1949-75. In this task, the techniques developed by Pearce (on the basis of Trotsky's work) to 'synchronize' superstructural trends with the economic base will be utilized.[1]

The data analysis will be separated into four sections. First, the data will be graphically presented and analysed. Second, a rudimentary attempt at explaining the patterns identified in the data will be made in the manner outlined above. Third, the net-tax data will be used to re-evaluate the historical 'track record' of the welfare state in New Zealand, and to reassess the findings in this area by other Marxist scholars. Fourth, the overall significance of the findings outlined in the previous sections in relation to the impact of the state on inter-class income redistribution in New Zealand will be teased out. Fifth, the data

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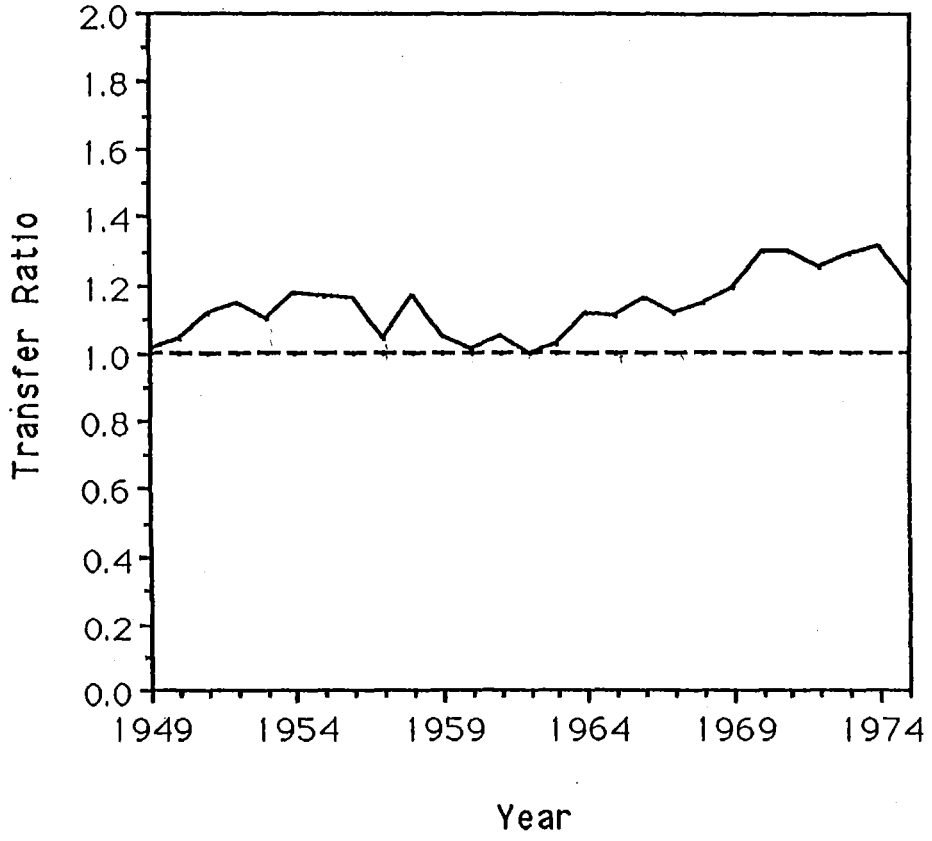
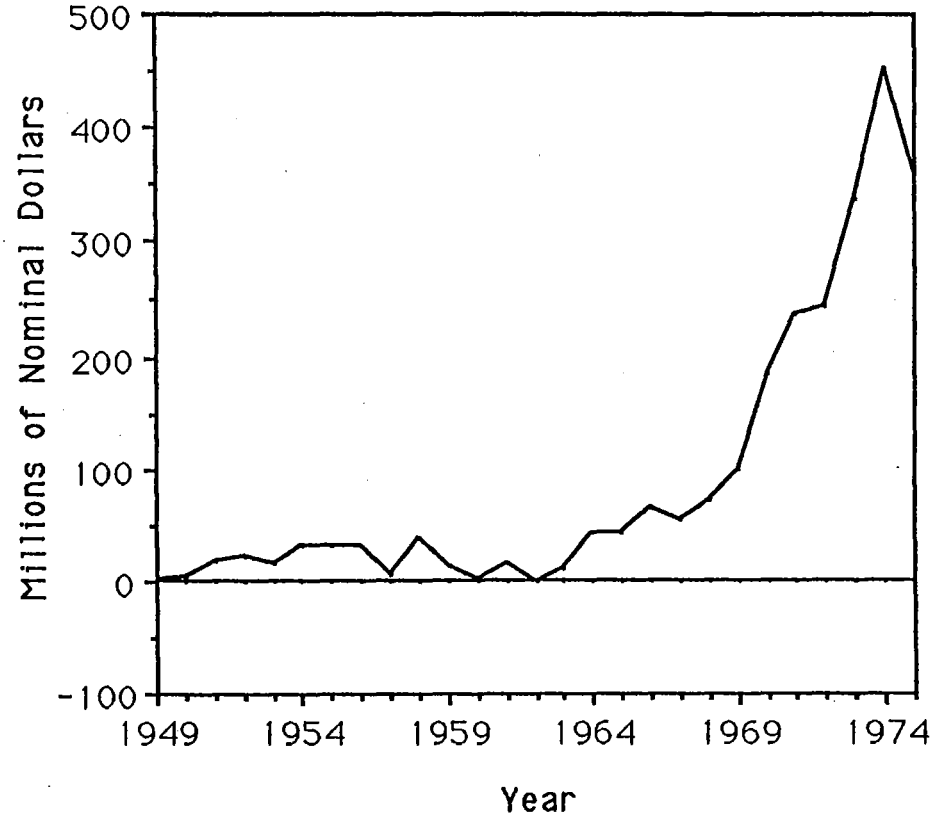
[1]Pearce, pp.103-158.

Graph 4:1 Transfer Ratio, 1949-1975



Graph 4:2 Net-tax, 1949-1975



generated in this study will be compared to Tonak's and Freeman's results.

(4.2) Graphical Analysis of Results

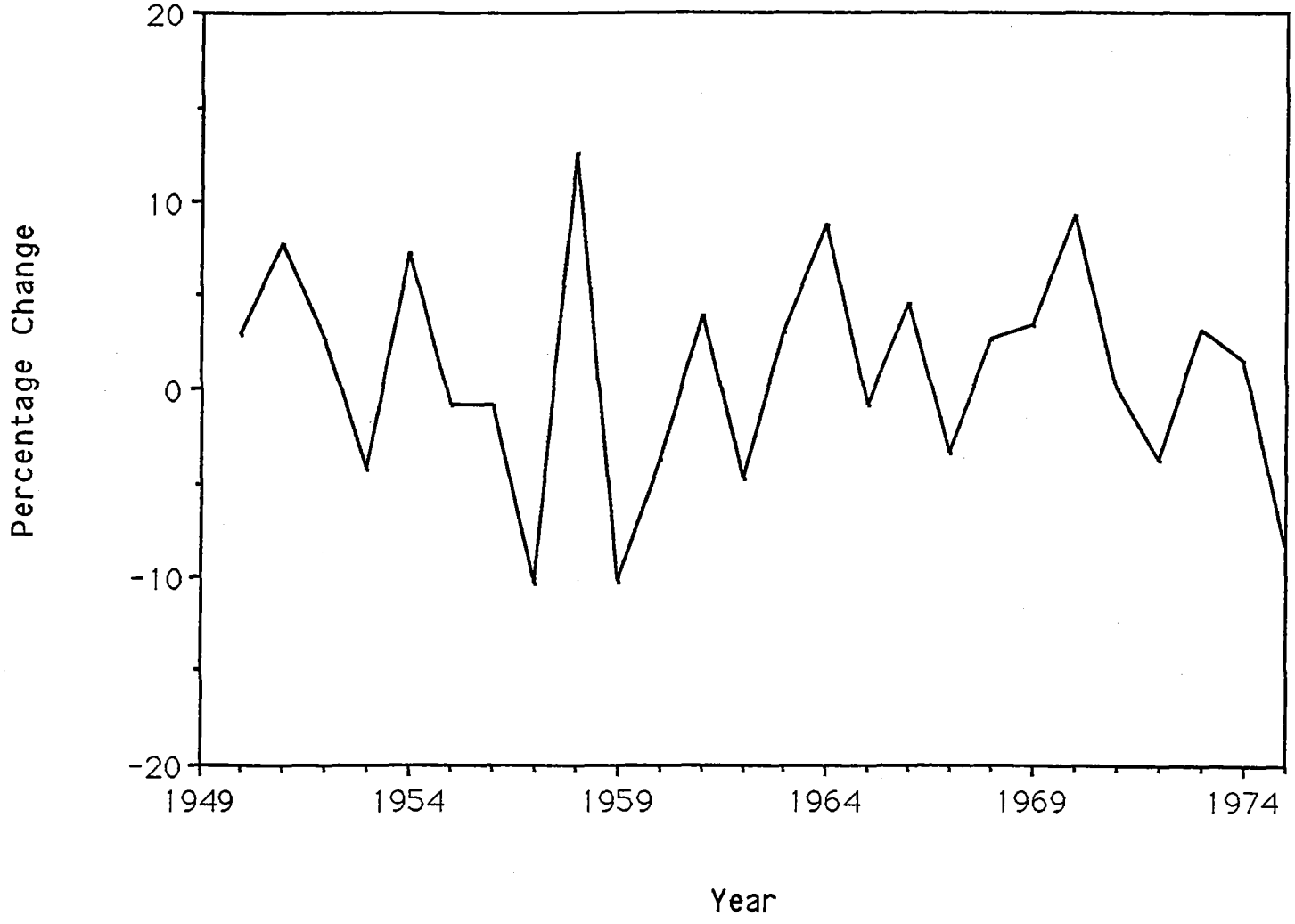
The most striking feature of Graph 4:1 is that the transfer ratio is greater than unity over the whole time-period surveyed, excepting the year of 1962 in which the transfer ratio is *equal* to unity. The inference drawn from these results is that the state has consistently appropriated more wealth in taxes from the working class than it has returned as a social wage to this class in the years 1949-75, barring 1962 when the working class 'broke even'. Logically, the same pattern is evident in the net-tax curve depicted in Graph 4:2. Apart from 1962, net-tax paid by labour has a positive value in every year in the period under consideration.[1] Further analysis of the data will be based on the transfer ratio, thereby obviating the need to adjust the net-tax curve for the effects of price inflation.

If short-term movements are momentarily ignored, three main periods are evident in the transfer ratio's progression. In the first, the years from 1949 to 1954, the ratio exhibits an overall tendency to increase, rising respectively from 1.01 to 1.18. The state increasingly effects a redistribution of wealth from labour to non-labour in this period. In the second period, the transfer ratio displays a downward

---

[1]The levels of TTLI and LPTGE are respectively $323.37 million and $324.30 million in 1962, yielding a net-tax figure of $-0.93 million. Using these figures, note that the transfer ratio (TTLI/LPTGE) equals 1.00 when rounded to two decimal places.

Graph 4:3 Transfer Ratio Percentage Change



trend, decreasing from 1.18 in 1954 to 1.00 in 1962 - which, as the only year in which the state did not transfer income from labour to non-labour, is the curve's lowest point. In the third period, the transfer ratio increases - albeit unevenly - from this low point in 1962 to 1.31 in 1974, the highest point in the curve, and then tapers off to 1.20 in 1975. It is readily apparent from these data that the years 1962-75 witnessed a marked change in the redistributive activities of the state.

A more sensitive measure reflecting fluctuations *within* the broad movements outlined above is provided in Graph 4:3, which registers the yearly percentage change in the transfer ratio curve.[1] Insofar as the the transfer ratio curve is given its shape by changes in the levels of *Total Taxes on Labour Income* (henceforth 'TTLI') and *Labour Portion of Total Government Expenditure* (henceforth 'LPTGE'), the two variables of which the ratio is composed, it is necessary to examine trends in the absolute amounts of these variables. Consider for instance 1962, the year in which the social wage was exactly equivalent to the amount of taxes the state appropriated from labour. The level of the transfer ratio (1.00) is a product of the absolute levels of LPTGE and TTLI, but the absolute levels of the latter variables cannot be inferred from the ratio itself.[2]

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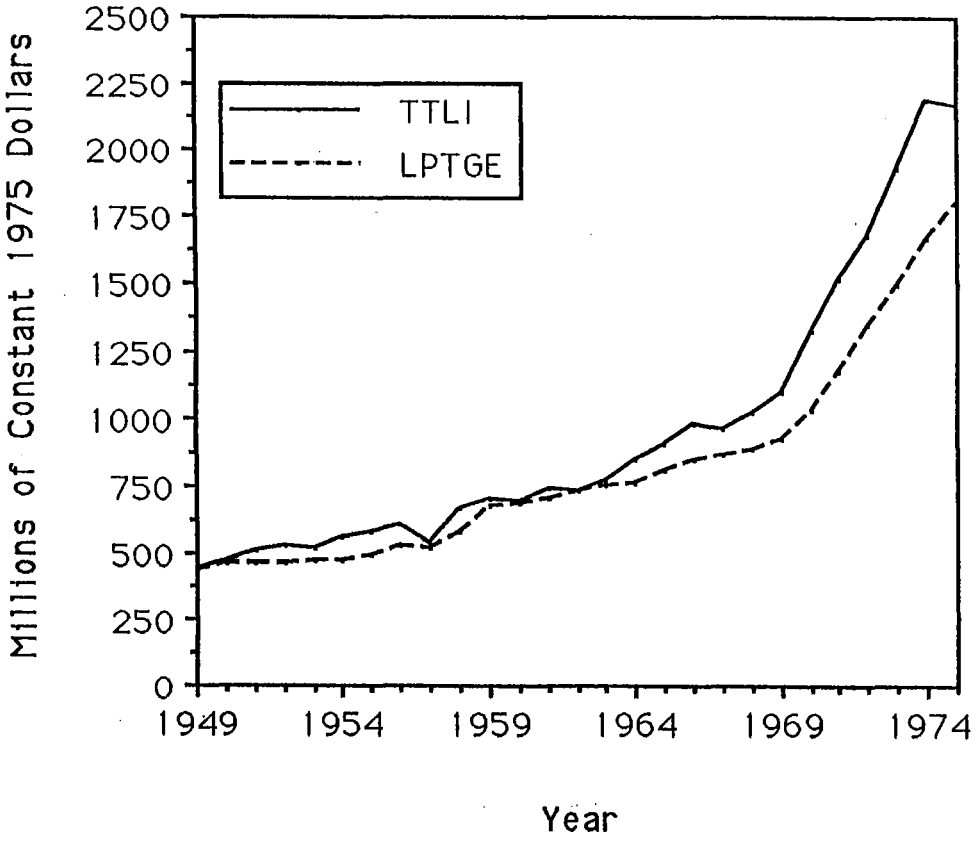
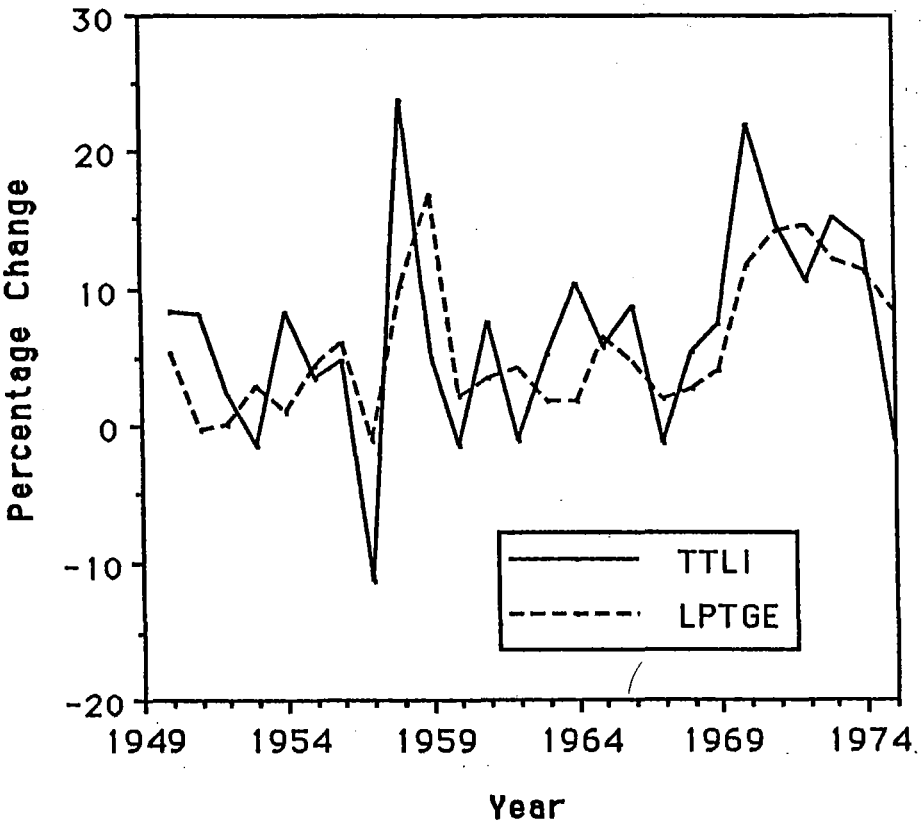
[1]The yearly percentage change is estimated using the following procedure: value at year x+1 minus value at year x (the preceding year) as a percentage of year x. Thus: percentage change = (x+1)-x/x*100. Note that a value cannot be calculated using this procedure for the first year in the data series (1949).

[2]The transfer ratio would equal 1.00 regardless of whether the amount of tax paid by the working class and the amount of the social wage received back was one dollar or one *million* dollars.

Graph 4:4 TTLI and LPTGE



Graph 4:5 TTLI and LPTGE



In examining the absolute levels of LPTGE and TTLI, price inflation must be taken into account by converting the figures from nominal to constant dollars. The Consumer Price Index is used to denominate both variables in 1975 dollars.[1] This procedure leaves the transfer ratio intact, yielding the same values as the nominal figures, while eliminating fluctuations in the TTLI and LPTGE curves owing merely to price inflation.[2] The resulting curves are plotted in Graph 4:4, and the yearly percentage change in each is plotted in Graph 4:5. The trends evident in each of the three periods in the evolution of the transfer ratio curve identified above will first be traced and then accounted for in terms of fluctuations in TTLI and LPTGE.

Trends in the Transfer Ratio: 1949-54

In this period, the predominant trend is for the curve (depicted in Graph 4:1) to increase, indicating that wealth was increasingly redistributed from labour to non-labour. The ratio begins in 1949 at the low point of 1.01. The transfer ratio rises from 1.04 in 1950 to 1.12 in 1951, marking an increase of 7.69% in the latter year over the previous year. In absolute terms, the transfer ratio curve increases from 1.12 in 1951 to 1.15 in 1952, the degree of increase slowing in 1952 to 2.68%.

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[1]Using the CPI in this manner is not entirely satisfactory. As Martin points out, the wage-goods whose price increases are registered in the CPI are not commensurate with the components of state expenditure under consideration. Although he sets out a methodology for developing price indices more appropriate to state expenditure, it is not empirically operationalized (Martin, 'The Modern Welfare State', p.31). In the absence of more relevant indices being available, the CPI will be used in this study.

[2]Hence the *percentage change* in TTLI and LPTGE calculated using real values will differ from that based on nominal figures.

The transfer ratio then decreases to 1.10 in 1953 (marking an increase of -4.35% over the previous year). The following year (1954), however, the curve returns to 1.18, marking an increase of 7.27% over the previous year.

Trends in TTLI and LPTGE: 1949-54.

From an examination of Graph 4:4, it is evident that in this period the LPTGE curve is almost static in all years except for 1953, and the TTLI curve tends to increase. LPTGE remains relatively constant in the years 1950-52. According to Graph 4:5, after decreasing by 5.61% in the years 1950-51, the curve increases by only 0.39% during 1951-52. On the other hand, TTLI increases in years 1950-52, although the degree of increase slows from 8.34% in 1950 to 2.19% in 1952. LPTGE increases by 2.76% in 1953, while TTLI declines in absolute terms (-1.45%), which accounts for the marked downturn in the transfer ratio in this year. In 1954, however, TTLI increases by 8.29% and LPTGE by only 0.91%, which is reflected in a marked increase in the transfer ratio.

Trends in Transfer Ratio: 1954-62

In this period, as noted earlier, the transfer ratio tends to decrease. Although this period was ushered in with the transfer ratio at 1.18 in 1954, marking a 7.27% increase over the previous year, the years 1954-57 witnessed the transfer ratio enter a phase of decline. The transfer ratio decreases from 1.18 in 1954 to 1.04 in 1957, marking an overall percentage change of -17.61%. The transfer ratio then increases

markedly in 1957-58, at 22.84% this is the sharpest upswing in percentage terms in the whole curve - though, in returning the transfer ratio to 1.17 in 1958, it is by no means the highest point in the curve in absolute terms. Then in the years 1958-59 the curve drops almost as sharply (-22.75%) to a level of 1.05 in 1959, the fall slowing to -3.80% in 1960, with the transfer ratio declining to 1.01 in this latter year. In 1961 the transfer ratio curve increases by 3.96% to 1.05, and then falls in 1962 (-4.76%) to 1.00.

Trends in the TTLI and LPTGE Curves: 1954-62

The initial years of decline (1954-57) are accounted for mainly by TTLI decreasing at a greater rate than LPTGE. In the years 1954-57, TTLI fell by 19.63%, while LPTGE fell by only 1.97%. The marked increase in the transfer ratio in 1958 is explicable in terms of a 23.83% upswing in TTLI. The transfer ratio would have increased even more markedly if not for the counterbalancing effect of a 10.26% increase in LPTGE. The percentage increase in TTLI then slows to 4.83 in 1959, but LPTGE increases by a further 16.72%, which accounts for the sharp drop in the transfer ratio in 1959. In 1960, the percentage increase in LPTGE tapers off to 2.03 and the percentage increase in TTLI falls to -1.51, leading to a convergence in the two curves which causes the transfer ratio to fall to its second lowest point. In 1961, a 7.51% increase in TTLI relative to a 3.48% increase in LPTGE leads to an upswing in the transfer ratio, which then falls to its lowest point in 1962 as the result of TTLI decreasing (-1.05%) and LPTGE increasing (+4.13%).

Trends in the Transfer Ratio: 1962-75

The years 1962-75 are distinguished from the two previous periods by a dramatic change in the pattern of income redistribution. From the low-point of 1.00 in 1962 the transfer ratio increases by 13.5% in the years 1962-64 to a level of 1.12 in 1964. The percentage change then drops in the years 1964-65 to -9.63, and the level of the transfer ratio declines to 1.11 in 1965. The transfer ratio fluctuates in 1966 (+4.50%) and 1967 (-3.45%), and then continues its upward trend. From 1.12 in 1967 to 1.30 in 1970, the transfer ratio increases by 12.69%; it then drops in the years 1970-72 (-13.09%), falling to a level of 1.25 in 1972. The curve increases in 1972-73 by 7.05% to 1.29 in 1973, and increases by a further 1.55% in 1974 to 1.31, which is the curve's apex. The curve then declines in 1975, leaving the transfer ratio at the level of 1.20 (marking an increase of -8.4% over the previous year) in the final year of the data series.

Trends in the TTLI and LPTGE Curves: 1962-75

The overall increase in the transfer ratio in this period is caused by the marked divergence in the TTLI and LPTGE curves evident in Graph 4:4, the gap between the two curves being at its widest in 1974 (the highest point in the transfer ratio). The overall tendency is for the two curves to increase together, but TTLI at a greater rate than LPTGE. Graph 4:5 demonstrates that the percentage change in the two curves is reasonably parallel, but fluctuations (upswings and

downturns) are more marked in the TTLI curve. On the whole though, increases in LPTGE are more than counterbalanced by parallel increases in TTLI. Within this period, two broad phases in the progression of the TTLI and LPTGE curves are apparent: from 1962-69, then from 1969-75. The upturn in both curves in 1969 is extremely sharp.

In the years 1962-64 TTLI increases by 11.49% and LPTGE by 2.36%. Similarly, TTLI increases in 1965 by 5.73% and in 1966 by 8.72%, and then decreases in 1967 (-1.37%). From 1967-70, TTLI increases by 23.2%, reflecting the sharp upswing in 1969. The curve then increases in 1971 (14.49%), 1972 (10.48%), 1973 (15.07%). In 1974-75, however, the curve decreases by 14.64%. LPTGE increases in 1965 (6.39%), 1966 (4.48%), 1967 (1.89%), and 1968 (2.66%). Then from 1969-72, LPTGE increases by 10.71%, impelled by a sharp upswing in 1969. The curve further increases in 1973 (11.99%), 1974 (11.25%), and 1975 (8.21%).

(4.3) Explanatory Comments on Observed Pattern of Income Redistribution

Having completed the somewhat tedious task of describing trends in the data, it remains to offer an explanation of the trends identified. Insofar as TTLI and LPTGE are the variables underlying the pattern of income redistribution depicted in the transfer ratio, one approach to this aspect of the data analysis would be to draw out the links between the actions of the state in the realms of taxation and state expenditure

and economic trends in this period. However, this would require taking the transfer ratio apart in a fashion that risks diverting attention away from the insights afforded by the concept of 'net-tax', by drawing state expenditure and taxation together in an analysis of income redistribution in the first place. The latter, after all, is the object of this study, not an analysis of taxation or state expenditure *per se*. Thus, the subsequent explanation of the results will be restricted to trends in the transfer ratio itself.

Whilst the Marxist notion that the economic base 'determines' the superstructure (or at least that it structurally circumscribes the parameters that the elements of the superstructure operate within) is adhered to in this study, in explaining yearly variations in the redistributive activities of the state it cannot merely be invoked in an axiomatic fashion; rather, any such causal relationship must be sought, and demonstrated, *empirically*. To this end, the first step in the explanation of the trends in the transfer ratio outlined above is to empirically quantify trends in New Zealand's economic base in the years 1949-75. In this task, the work of Pearce - the most rigorous and extensive Marxist analysis of the New Zealand economy to date - will be relied upon. The next step in the analysis involves comparing trends in the transfer ratio to economic trends, in order to discover whether the redistributive activities of the state correlate with the dynamics of capital accumulation.

Pearce bases his analysis on Trotsky's interpretation of the 'base-superstructure' schema; more specifically, on the latter theorist's notion

of the "curve of capitalist development", as quantitatively expressing the economic base.[1] Pearce sets out to empirically identify the curve of capitalist development in New Zealand, and then on this basis proceeds to rigorously delineate economic trends and to compare them to trends in various superstructural phenomena.

Insofar as this study is based on the national accounts, the principal estimate of national income used to calculate net-tax (National Income at Factor Cost) may seem the obvious choice in mapping the contours of capital accumulation in the New Zealand economy as a whole. Pearce, however, rejects it in favour of one of the three other aggregate measures of national income available in New Zealand (National Income at Market Prices, Gross National Product, and Gross Domestic Product). From these he selects National Income at Market Price (NIMP) as the best indicator of the "curve of capitalist development in New Zealand".[2] His reasons for doing so are threefold.

First, whilst subsidies are included in NIFC, they are excluded from NIMP. It is better to use the latter measure of national income because "the inclusion of subsidies has a counter-cyclical effect on the data, i.e., obscures the degree of fluctuations in economic activity."[3] Second,

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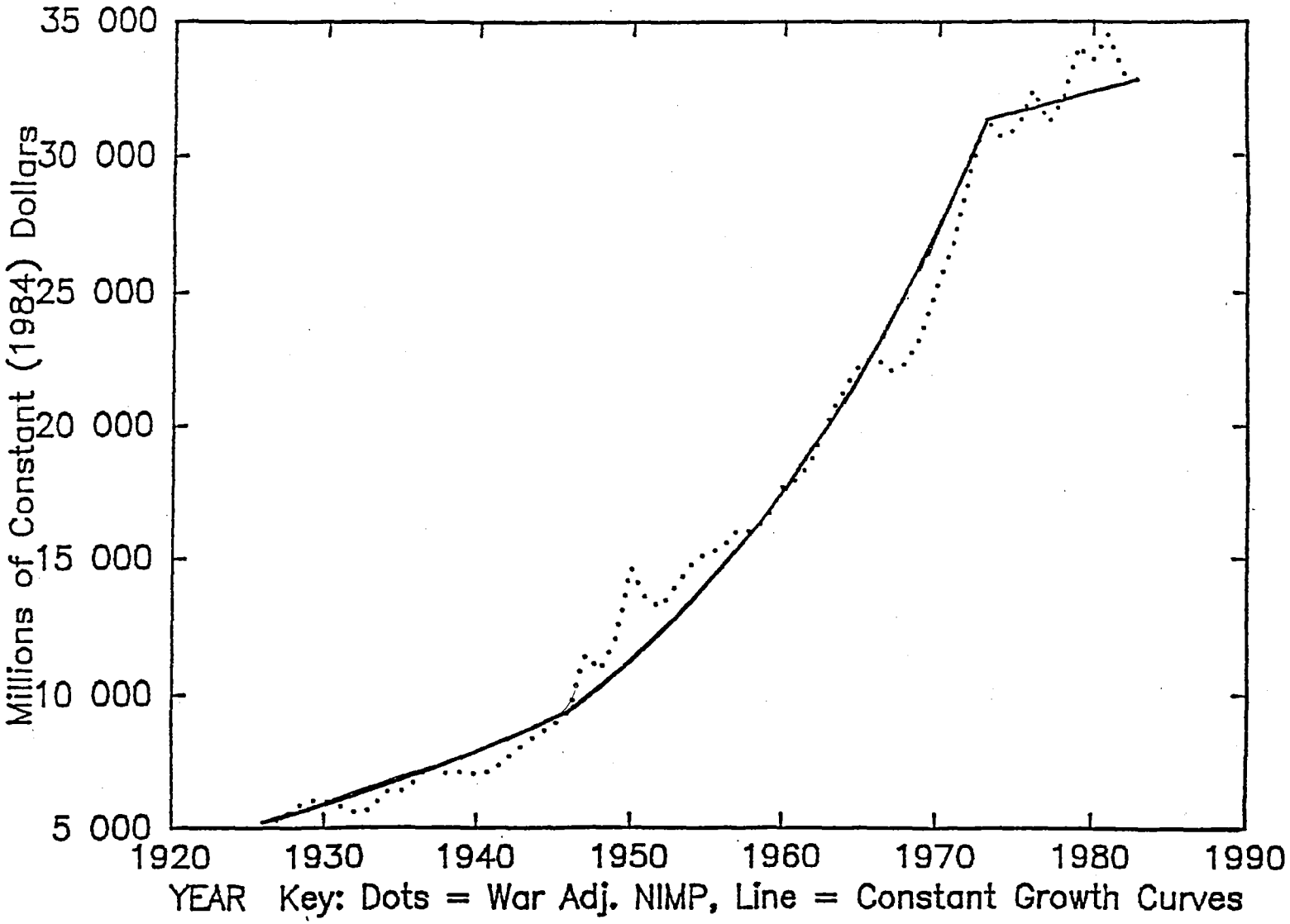
[1]L. Trotsky, 'The Curve of Capitalist Development', Problems of Everyday Life. New York, Monad Press, 1973, pp.273-280.

[2]Pearce, p.110. It will be recalled from Chapter Three that NIFC is defined as "private income plus Government trading income less transfer incomes"(OENIE 1957-58, p.6). Pearce summarily defines the other measures of national income thus: "NIMP = NIFC + (Indirect Tax - Subsidies); GNP = NIMP + (Depreciation Allowances); GDP = GNP + income generated in New Zealand but accruing to overseas residents"(p.110).

[3]Pearce, p.117.

GRAPH 4:6 NIMP PERIODISATION AFTER ADJUSTMENT FOR WAR



depreciation allowances are also excluded from NIMP, but they are included in GNP. Depreciation allowances obscure "real economic trends" because the Government has periodically used them "to stimulate investment in new equipment during downturns."[1] For this reason, Pearce argues, NIMP is also more suitable than GNP. Third, GDP includes depreciation allowances, but this is counterbalanced by the fact that it includes income accruing to non-residents of New Zealand, which must be treated as income generated by New Zealand's economy and therefore must be included in the national income of this country.[2] However, the series of NIMP data is broader in scope than the GDP data and for this reason the former is selected by Pearce as the basis from which to develop the curve of capitalist development.

A series of adjustments are then made to the NIMP data. Notably, Pearce subtracts the components 'Pay and Allowances of Armed Forces' and 'Lump Sum Payments from the United Kingdom'.[3] The resultant, the 'curve of capitalist development in New Zealand' is in this sense 'war-adjusted'. It is reproduced in this study as Graph 4:6:

> The solid line is the principal trend line, linking the figures in three separate constant growth series at the years identified as breaking points, 1946 and 1973. The solid line, therefore, reveals the overall economic character of epochs.[4]

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[1]Pearce, p.118.
[2]Pearce, pp.118-119.
[3]The reasons for these adjustments are outlined in Chapter Three above.
[4]Pearce, p.142.

Pearce identifies within the curve "three distinct economic epochs", labelled Period A (1926-1946), Period B (1946-1973) and Period C(1973-1983).[1] The distinguishing feature of each is the average rate of economic growth: 2.991% in Period A; 4.5545% in Period B; and 0.4760% in Period C.[2] He notes:

> the rate of growth in A is around 66% of that in B; development in A, relative to B, is sluggish. As the growth rate in C is only 10% of the prevailing rate in B, development in C is in crisis.[3]

Period B equates with the long boom, the most intense and sustained period of economic growth in New Zealand's history.

It must now be established whether there is a causal relationship between the economic trends captured in the curve of capitalist development and the redistributive activities of the state. Sophisticated statistical tests aside, this is best achieved by juxtaposing the two curves and comparing the fluctuations in each. Pearce, following Trotsky, terms this the task of 'synchronizing' trends in the base and superstructure.[4] Let us begin with a comparison of the absolute levels of the transfer ratio and NIMP.

Prima facie, the results broadly accord with the pattern of inter-class income redistribution that might be expected in light of the pattern of economic development in this period. A comparison of the transfer

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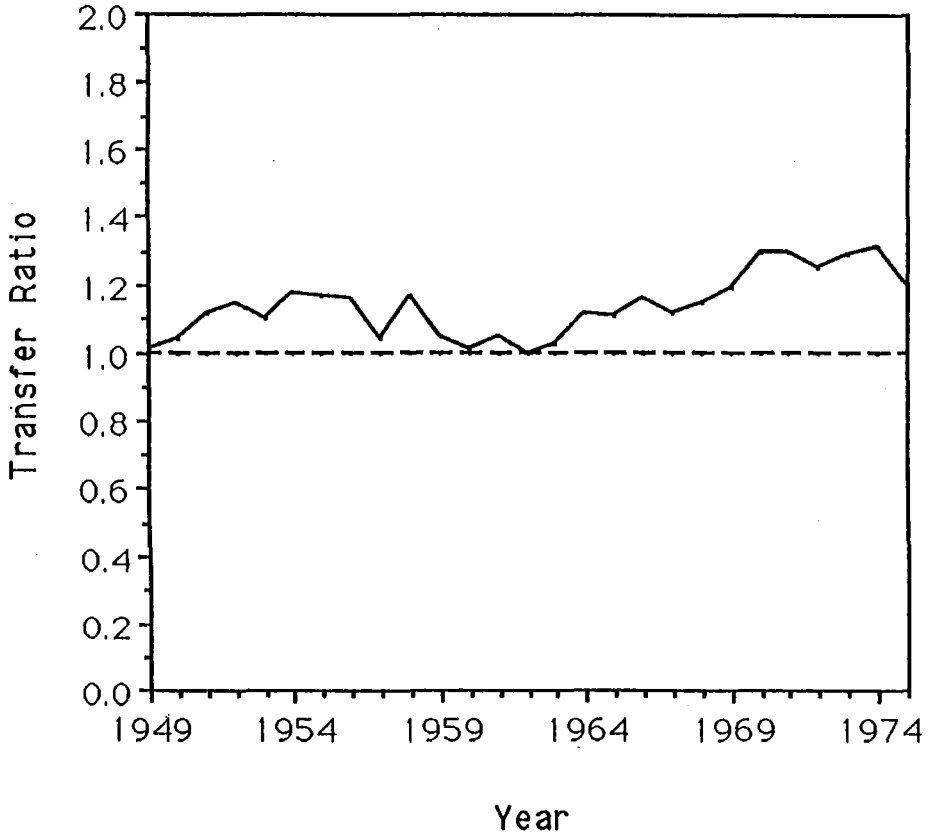
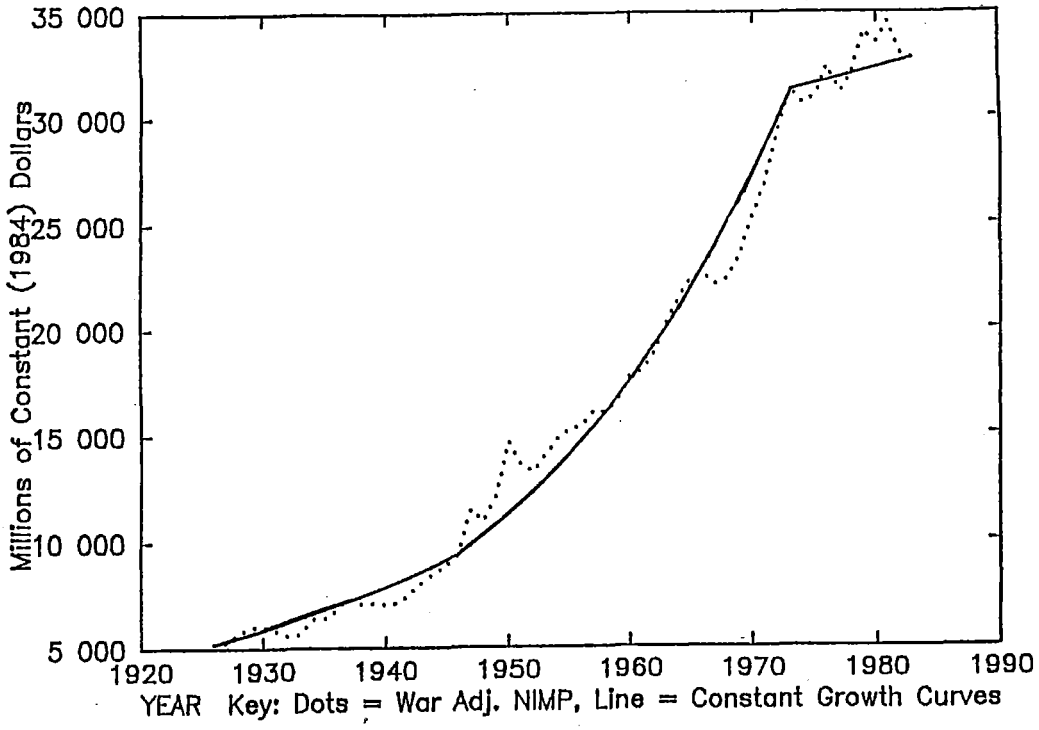
[1]Pearce, p.126.
[2]Pearce, p.139.
[3]Pearce, p.139.
[4]Pearce, p.106.

Graph 4:1 Transfer Ratio, 1949-1975



Graph 4:6 NIMP PERIODISATION AFTER ADJUSTMENT FOR WAR

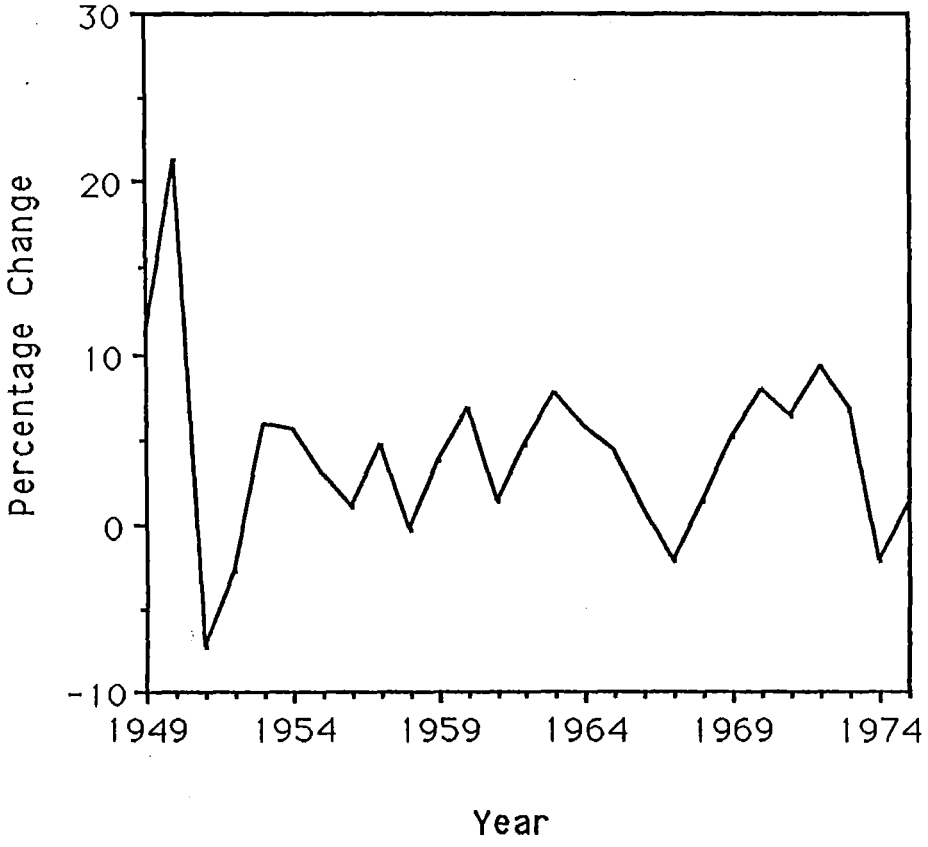


ratio curve (Graph 4:1) to the curve of capitalist development (Graph 4:6) reveals that the transfer ratio was at its nadir in the middle of the long boom (the conditions most propitious to the 'welfare state'), and at its apex in the years of incipient crisis (which is precisely when the 'welfare state' cannot be 'afforded') at the end of the long boom. Although, it must be reiterated that even at the curve's lowest point, redistribution from non-labour to labour *did not occur* - there was merely an equivalence between the amount of tax ceded to the state by labour and the social wage received from the state by labour.

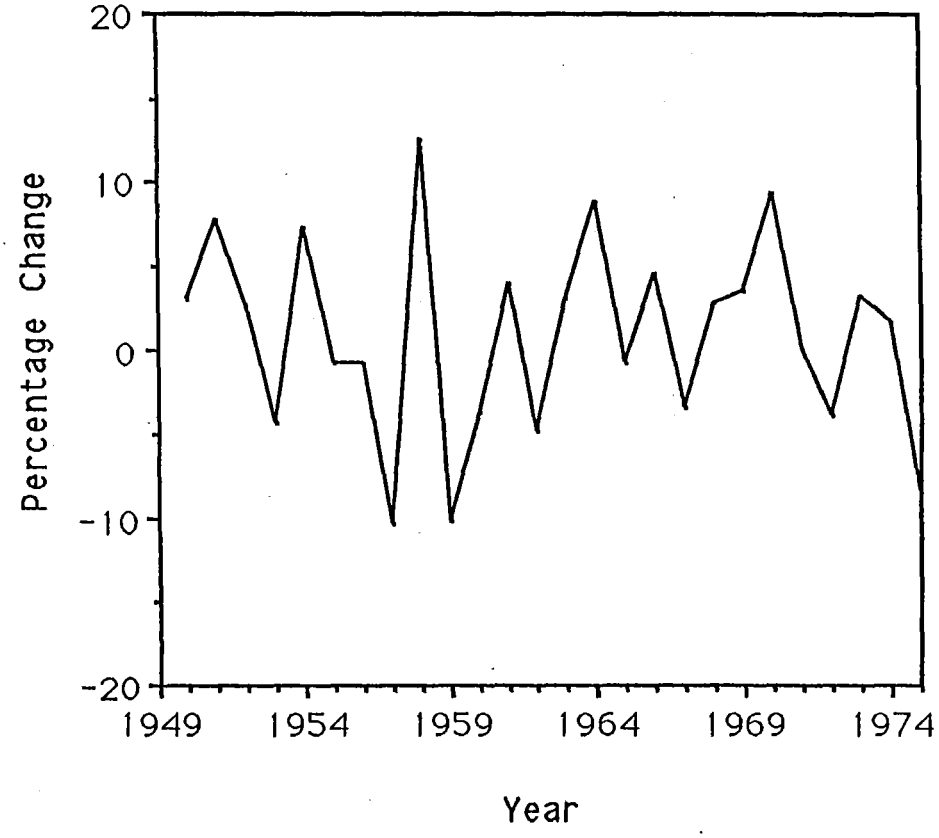
The pattern is not, however, as straightforward as it may first appear in that all but two years covered by the transfer ratio(1974 and 1975) fall *within* the period of the long boom. It is evident that the transfer ratio both drops sharply (1954-62) and increases sharply (1949-54 and 1962-73) within this period. However, insofar as it is only the absolute levels of the two curves that are being examined at this point, the true level of the fluctuations in each curve is minimized. To further illuminate this pattern, yearly percentage changes in the transfer ratio must be compared to yearly percentage changes in the NIMP curve.

A detailed comparison of fluctuations in the transfer ratio to economic fluctuations proves particularly instructive, for contemporaneous changes in the two curves are evident. From the juxtaposition of Graph 4:3 to Graph 4:7, it is apparent that upswings in the rate of economic growth tend to equate with downturns in the level of percentage change in the transfer ratio, and downturns in the rate of economic growth tend to equate with upswings in the level of

Graph 4:7 National Income At Market Price, 1949-1975



Graph 4:3 Transfer Ratio Percentage Change



percentage change in the transfer ratio. In 1952, 1953, 1957, 1959, 1962, 1972, and 1975 the percentage change in the transfer ratio declines and the level of economic activity increases. Similarly, in 1951, 1954, 1958, 1961, 1964, 1966, and 1973 the opposite holds: the percentage change in the transfer ratio increases while the rate of economic growth decreases.

Undoubtedly, there are exceptions to this pattern. Notable amongst these are the years 1967-70 in which both curves increase together. Other exceptions are the years 1954-56, in which both curves decline, and 1959-60 in which both curves increase. Nonetheless, on the basis of the correspondences outlined above, there is a reasonably strong positive correlation between changes in the rate of economic growth and the degree to which the state transfers income from labour to non-labour.

It is all very well to identify a regular relationship between two sets of phenomena, but it is another matter altogether to specify the nature of the causal relationship between the two or, indeed, whether one exists at all. Undoubtedly, the relationship between the redistributive activities of the state is more complex than it may first appear. The most obvious possibility is that the state increasingly subsidizes the capitalist class in periods of economic downturn by transferring wealth to it from the taxes paid by the working class. However, it cannot be assumed that the lines of causality are unidirectional, in the sense that the level of income transference is shaped by the vicissitudes of capital accumulation. It is equally plausible that changes in the level of economic activity could

themselves be reinforced by the redistributive activities of the state. The response of the state called forth by an economic downturn could, in turn, exacerbate the downturn. The state could well be drawing off taxes from the capitalist class as well, i.e., net-tax paid by the capitalist class may also be positive, leading the state to act as a semi-autonomous cause of economic downturns by 'squeezing' profits.

However, the true effects of the redistributive activities of the state on the economy cannot be ascertained because, as a result of not having developed a basis from which to estimate net-taxes paid by the capitalist class, the extent to which the state itself drains off wealth cannot be known. It can only be concluded that economic downturns tend to equate with upswings in the degree to which the state redistributes income from labour to non-labour and that economic upswings tend to equate with downturns in the degree to which the state redistributes income from labour to non-labour.

It cannot be denied that there is in evidence a general correspondence between the dynamics of capitalist economic development and the degree of income transference indicated by the transfer ratio. This could, of course, be a mere coincidence, a product of the fortuitous juxtaposition of TTLI and LPTGE (the two variables of which the ratio is composed). However, if a causal relationship can be read into the number of correspondences between the transfer ratio and the curve of capitalist development mapped previously, there is good reason to believe that movements in the transfer ratio are more than merely a result of the contingent conjunction of the levels of TTLI and LPTGE.

Rather, they are the outcome of their articulation within the economy, characterized as it is by yearly fluctuations in its rate of growth, and indeed are congruent with these periodic economic shifts.

(4.4) A Re-evaluation of the Performance of 'The Welfare State'

Having identified and explained - albeit in a rudimentary fashion - trends in the net-tax data, it now falls upon this study to use this data as a new vantage-point from which to assess the performance of the welfare state *vis-a-vis* the working class. Similarly it can be used to re-evaluate the performance of various governments on the 'welfare front', and to re-evaluate the way in which Marxist scholars have rated their performance.

As Tonak himself notes, even in Marxist studies state expenditure as a percentage of GDP (or some other measure of national income) is typically accepted as the orthodox empirical index of "whether the welfare state is advancing".[1] It is not my intention to dispute that state expenditure as a percentage of GDP can be used as a general indicator of the 'size' of the welfare state. Rather, it will be demonstrated that the net-tax data provides an altogether different, and indeed more sophisticated, means of rating the welfare state's successes or failures.

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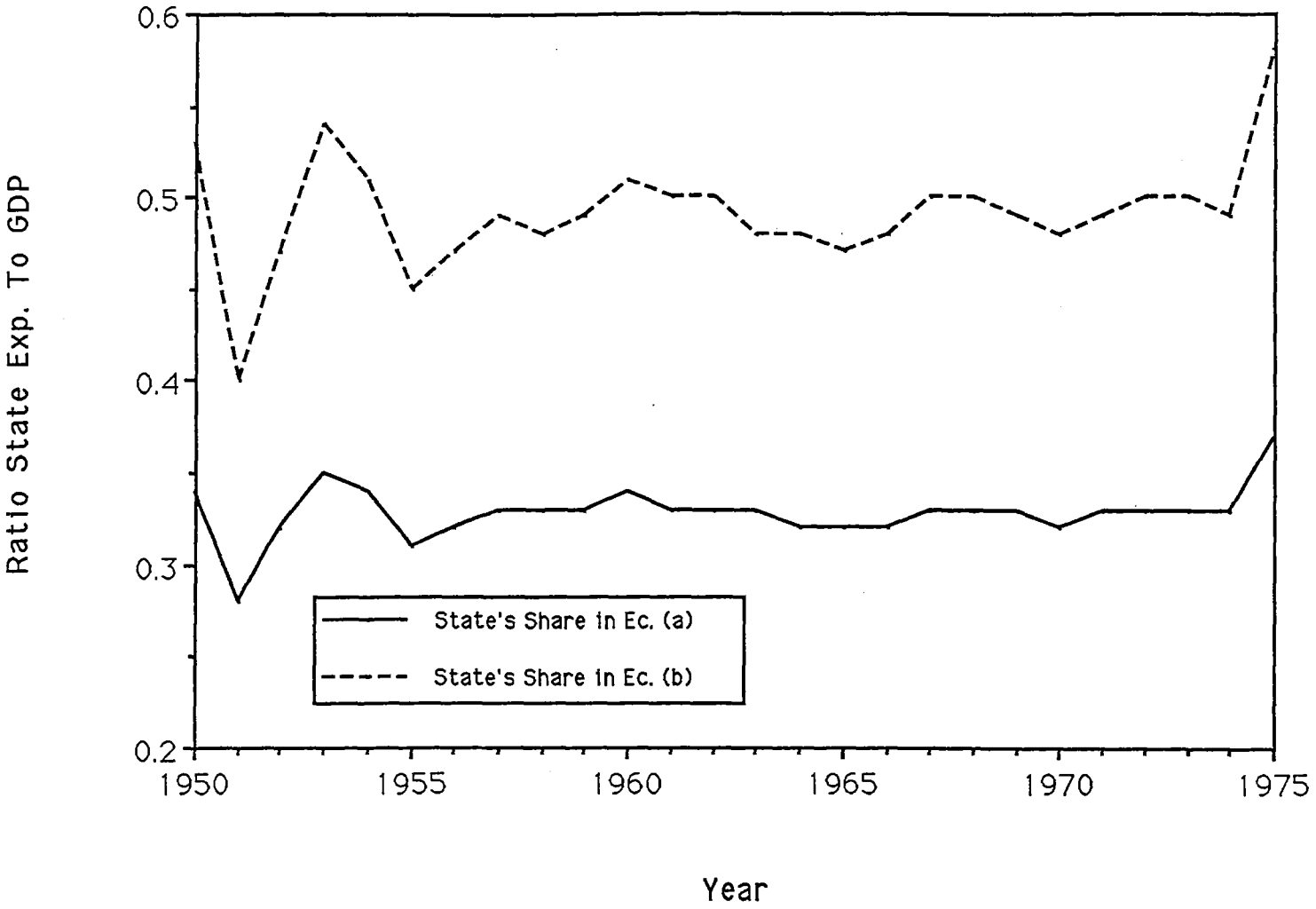
[1]Tonak, p.57.

Graph 4:8 State's Share in the Economy



In light of the foregoing point, two estimates have been generated in accordance with the orthodoxy in this area for purposes of comparison with the net-tax data. They are plotted in Graph 4:8. The first (solid line) is simply the ratio of state expenditure to GDP. It has been constructed in the following manner:

State's Share in Economy (a) = state expenditure / GDP

However, some Marxists regard all state expenditure as unproductive.[1] In this vein, Paul Mattick argues that the ratio of state expenditure to GDP, less state expenditure, is a better index of the "increasing [or decreasing] role of the state in [the] capitalist economy."[2] Thus, the second estimate (broken line) has been generated as follows:

State's Share in Economy (b) = state expenditure / (GDP - state expenditure)

On the basis of the argument that such indicators can be used to ascertain whether a welfare state exists in New Zealand, trends in the two curves will be identified. An examination of the curve 'State's Share in the Economy (a)' reveals that the ratio of state expenditure to GDP begins at the level of 0.34 in 1950, falls to 0.28 in 1951, and then

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[1]There are, however, a number of divergent positions within this school. For instance, Fine and Harris criticize Gough's view that the state is 'indirectly productive', yet they themselves assert that state expenditure is indirectly productive, albeit in a qualitatively different sense to Gough (Fine and Harris, pp.98-99).

[2]Tonak, p.57. The following means of operationalizing Mattick's argument has been drawn from Tonak's work.

increases in 1952 to 0.32 and again in 1953 to 0.35. The ratio then drops to 0.31 in 1955 and increases slightly to 0.32 in 1956. Thereafter, the curve flattens out at approximately one-third of GDP - apart from a sharp upswing in the final year in the series. Thus, at least according to this indicator, the welfare state in New Zealand in the years 1956-74 is characterized by stasis, neither advancing nor retreating.

If, on the other hand, the arguments made by Marxists such as Mattick in regards the unproductive role of the state in the economy are accepted, the second curve 'State's Share in Economy (b)' must be examined as the true indicator of the performance of the welfare state. Whilst the degree of fluctuation is amplified in this curve, a similar pattern is evident to the one identified above. The curve drops markedly from 0.53 in 1950 to 0.40 in 1951, increases to 0.54 in 1953 and then drops to 0.45 in 1955. Thereafter, the curve is relatively static at approximately one-half of GDP - all apart from a sharp upswing in 1975.

Whichever curve is used, it is apparent that a sizable portion of GDP has been administered by the state, and this is the material foundation of the claim the a welfare state existed in New Zealand. However, if we leave the realms of state expenditure as a percentage of GDP, and adjudicate this issue from the point of view of the net-tax data generated in this study, a substantially different picture emerges. If judged solely in terms of income redistribution, it can be argued on the basis of these data that a welfare state has never existed in New Zealand. Indeed, the closest this country came to the existence of a welfare state was the year

of 1962, when the working class as a whole received from the state the same amount of wealth as they had paid in. Whilst from 1962 onwards both of the ratios of state expenditure to GDP indicate that the status quo was maintained (i.e., that the welfare state was holding fast), the transfer ratio indicates that New Zealand progressively diverged from the conditions necessary to maintain the argument that a welfare state existed; namely, enhancing the the living standards of the working class as a whole.

Some Marxists would argue, however, that the analysis should be restricted to the conventional definition of welfare expenditure (health, education and social services), particularly in assessing the performance of particular governments in the realm of welfare. Martin's work is the most recent indigenous Marxist analysis adhering to the widely held opinion that the 'track record' of the welfare state can be adjudicated on the basis tracing welfare expenditure as a percentage of GDP.[1] Thus, the data generated in this study can be used to evaluate the accuracy of the inferences he draws from his empirical analysis. This is rendered all the more interesting because, although he approaches the problem in a different fashion to this study, his point of departure is much the same: "The key political question . . . is our response to the 'cuts' - the decline in real terms of welfare spending by the state".[2]

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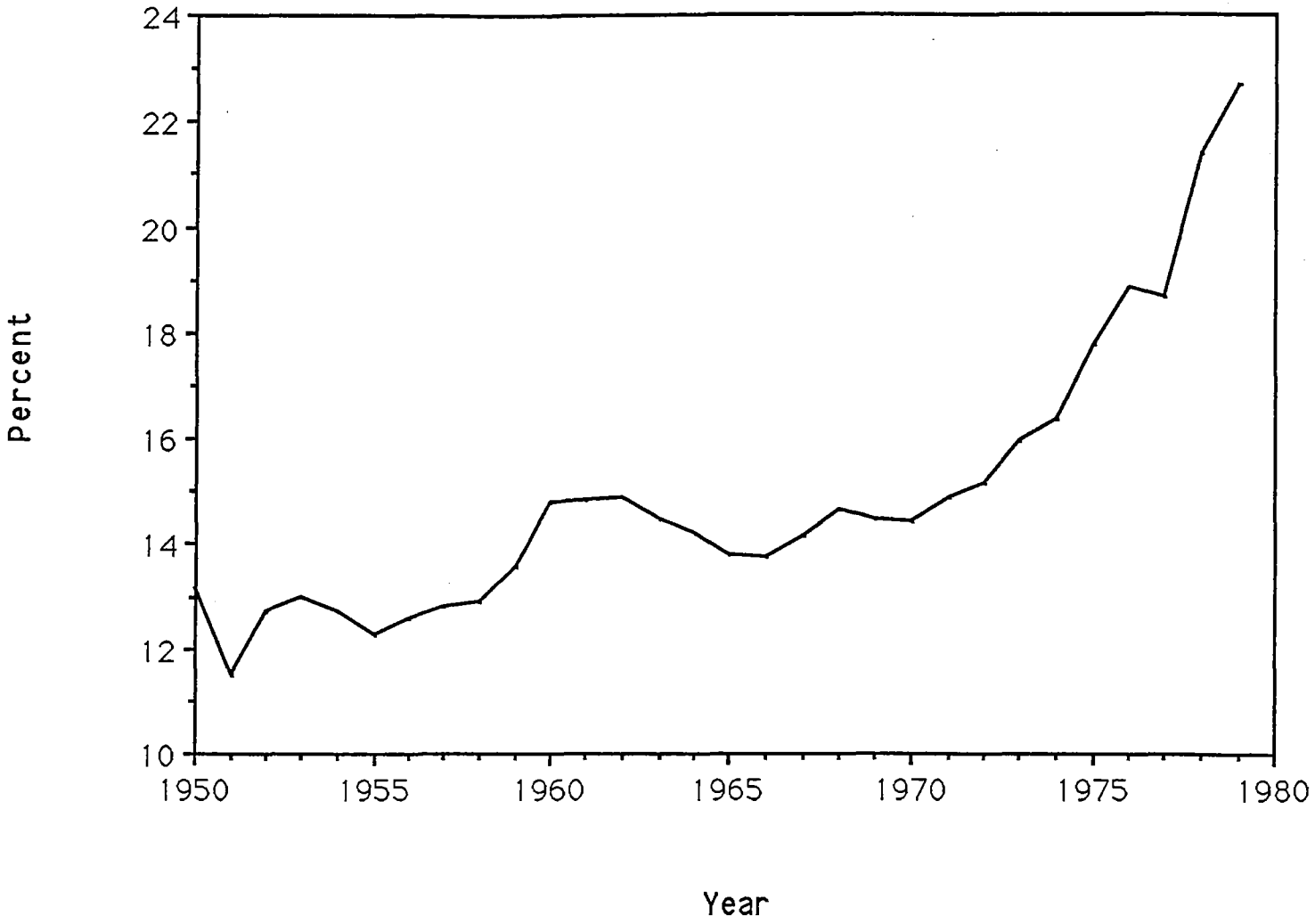
[1]Martin, 'The Modern Welfare State and Expenditure in New Zealand'.
[2]Martin, p.3.

Graph 4:9 Welfare Exp. as Percentage of GDP



In relation to the prevailing political configuration, Martin identifies the following trend:

> the profile of development in spending demonstrated that each Labour government created a new plateau level of expenditure which National then accepted but did not improve upon. Increases in spending . . . occurred in a series of discontinuous steps until the 1970s.[1]

Welfare expenditure as a percentage of GNP increased dramatically under the first Labour government, from 5.9% in 1939 to 13.2% in 1949.[2] This period, however, falls outside of the scope of the net-tax data. More important for the purposes of this study is an examination of the years 1949-75. It is evident from Graph 4:9 that in the years 1950-57, under a series of National governments, the level of welfare expenditure certainly did not increase above the level established by Labour. Welfare expenditure dropped sharply to 11.5% of GDP in 1951, and then increased to 12.7% in 1952. Thereafter it does not exceed 13% of GDP.

Under the second Labour Government (1957-60), however, the level of welfare expenditure increased markedly from 12.8% of GDP in 1957 to 14.8% in 1960. Again, the trend in the long period of National governments from 1960 until 1972 accords with Martin's 'plateau' thesis: apart from a slight increase to 14.9% of GDP in 1962, the level of welfare expenditure exceeds the level established in the final year of the second Labour Government (1960) only once. This occurs in 1971

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[1]Martin, p.69.
[2]Martin, p.22.

when welfare expenditure increases again to 14.9% of GDP. The intervening period witnesses the level of welfare expenditure drop steadily to a low point of 13.7% of GDP in 1966, and then climb slowly to 14.7% in 1968. It drops again to 14.4% in 1970 and then slowly begins to ascend. On the other hand, in the period of the third Labour Government, welfare expenditure as a percentage of GDP sky-rockets from 15.2% in 1972 to 17.8% in 1975.[1]

Hence, using welfare expenditure as a percentage of GDP as an indicator, up until the mid-1970s the welfare state appears to have advanced under Labour and stagnated, and in some years even retreated, under National. Before using the transfer ratio to reassess these findings, it is pertinent to return to Pearce's study for, innovative though it is in many respects, it illustrates the dangers of focussing exclusively on taxation, an approach that represents the other side of the same coin: neither Martin nor Pearce systematically weaves together state expenditure and taxation to the end of fashioning a 'global' assessment of the welfare state.

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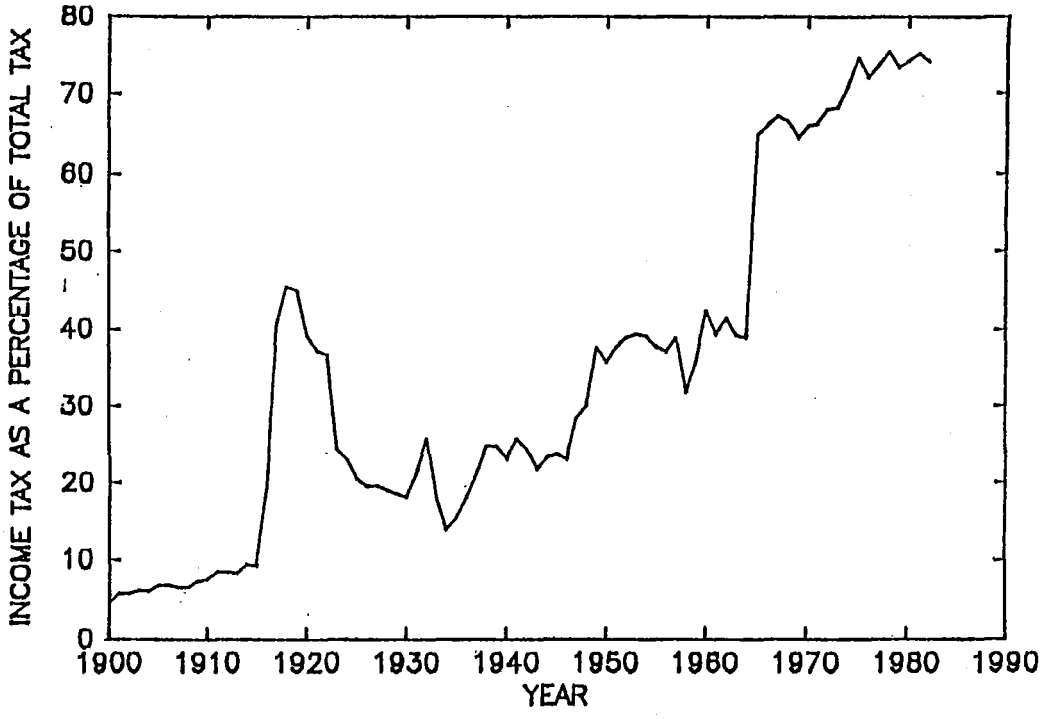
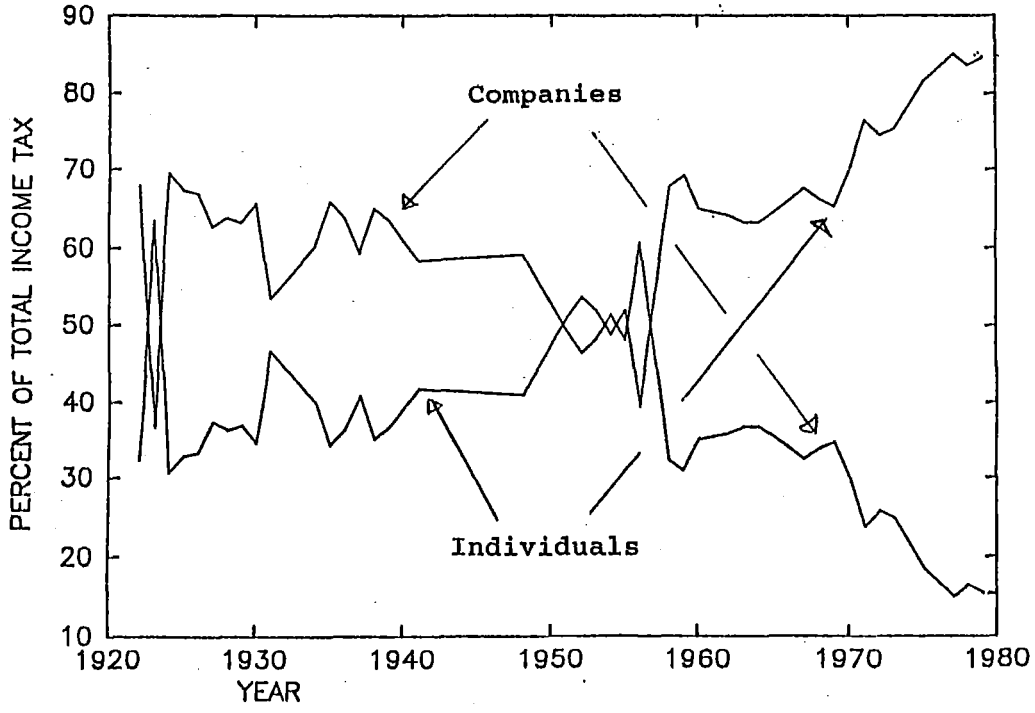
[1]Thereafter, as Martin notes, this pattern ends, with National also increasing welfare expenditure relative to GDP. He argues that the nascent economic crisis triggered a series of changes culminating in a marked upswing in welfare expenditure. Among these changes was the destabilizing effect the economic downturn had on bourgeois politics. He notes: "Electoral instability and insecurity favoured election year stimulation of the economy for its short-term political pay-off"(p.52). This resulted in the use of welfare expenditure, and fiscal policy in general, in "amplifying social fluctuations in tune with the electoral period of three years"(p.52). Insofar as the period under consideration in this study ends in 1975, this marked shift in the pattern of welfare expenditure will not be considered any further.

Graph 4:10 INCOME TAX AS % OF TOTAL TAX TAKE



Graph 4:11 SOURCES OF INCOME TAX AS % OF TOTAL INCOME TAX TAKE



State expenditure is not systematically dealt with in Pearce's study. Instead, he latches onto the other 'half' of the transfer ratio - the degree to which the working class has financed state expenditure via taxation. He begins with the contribution of income tax to the tax-pool as a whole (Graph 4:10), and notes:

> From 1935, income tax has increased until, in the mid-1960s, it becomes the major source of tax revenue; at the end of the period [1980], income tax contributes about three-quarters to total tax revenue. In the period of the first Labour Government, the share of income tax rose from about 14% to almost 40%. Apart from the massive increase in the mid-1960s, National Party governments have held or even reduced the share of total tax collected as income tax. By contrast, each of the first three Labour Governments (1935-49; 1957-60; 1972-75) shifted the tax burden onto incomes . . . .[1]

He then identifies the contribution of 'individuals' (salary and wage earners) to the pool of income taxes, on the basis of Graph 4:11. He observes:

> In 1923, individuals paid about one-third of total income tax. By the end of the 1970s, individuals paid about 85% of total income tax. Under the First Labour Government, the share of company income tax fell about 10%. Under the Second Labour Government, it fell almost 30% and again about 10% under the Third. By contrast, during the First National Government, the share of income tax paid by companies rose, and in the 12 years of the Second National Government it fell only 5%.[2]

Finally, he draws attention to the proportion of state revenue that taxation represents:

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[1]Pearce, p.239.
[2]Pearce, p.239.

> For the whole period to World War I, taxation contributed around half of state revenue. During the period of the war, it rose to more than 60 percent; by 1931, it exceeded 80%. In the long recession, it fell back to 70%. Under the First Labour Government, it climbed to over 85%. With the exception of the war period and 1979, it has oscillated around the 85% mark since then.[1]

A different picture of the welfare state's performance under the various Labour and National governments emerges from Pearce's analysis. According to Martin's study, the welfare state advanced under Labour. From the point of view of taxes paid, however, Labour also increasingly levied taxes on the working class, while National in some years even reversed this trend - it increased taxes on the working class to a lesser degree, if at all. As far as the working class is concerned, Martin's findings must be moderated in light of the fact that increases in welfare expenditure under Labour may well have been cancelled out by tax increases, i.e., the welfare state appears to be advancing, but it does so at the expense of the working class.

It is in this vein that Pearce concludes:

> wage and salary earners not only paid for welfarism but the running costs of the state apparatus were also shifted from the farmers and captains of industry to them. In this light, the lack of opposition by private investors to state management of the economy from the end of World War II to the early 1970s is understandable.[2]

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[1]Pearce, pp.240-41.
[2]Pearce, p.241.

However, this conclusion *vis-a-vis* the welfare state is tenuous in that state expenditure received by the working class is not taken into account. Workers may well have ceded more taxes to the state, but they may also have received more state expenditure back which, at the level of the working class as a whole, has the effect of annulling the increases in taxation. Indeed, it is at least possible that workers received substantially more wealth back from the state than they paid in taxes. An examination of the net-tax data (in the form of the transfer ratio) reveals that this did not occur, but there is no way of knowing this *a priori*. It has been demonstrated in this study only by carrying out a systematic empirical analysis using the net-tax methodology.

In light of Martin's and Pearce's findings, an examination of fluctuations in the transfer ratio in relation to the prevailing political configuration in the years 1949-75 proves extremely interesting. The transfer ratio constructed in this study begins in the first Labour Government's final year in office (1949). The remainder of this period is characterized by National Party incumbency, punctuated by two Labour Governments (1957-60 and 1972-75).

An examination of trends in the pattern of income redistribution in the first period in the transfer ratio's progression identified previously, the years 1949-54, reveals a small degree of redistribution of income away from the working class under Labour, and a marked increase under National. Though ushered in by a National government, in the initial years (1954-57) of the second period the transfer ratio actually decreases. The transfer ratio decreases dramatically in the year Labour

came to power (1957) and then, as a result of the curve increasing sharply in 1958, exhibits a zig-zag movement. The curve drops to a low point in 1960, the final year of the second Labour government, but reaches its nadir in 1962, the second year of the National government which ascended to power in 1960.

The years 1962-75, the third period in the transfer ratio's progression, are characterized predominantly by National governments. An overall tendency to increase is apparent in the curve in this period. In the ten years in which National is in power in this period (1962-72), the transfer ratio curve tends to increase. It declines in the first year of the third Labour government (1972), but then continues its upward trend in the following two years, and decreases in the final year in the data series.

In light of the foregoing discussion, the pattern of income redistribution depicted in the transfer ratio is all the more surprising given that increases in the transfer ratio periodically occurred under *Labour* governments, and decreases in the transfer ratio periodically occurred under *National* governments. Indeed, the transfer ratio reaches its apex under Labour in 1974, and drops to its nadir under National in 1962. Thus, New Zealand was farthest from the existence of welfare state under the third Labour Government and was closest under a National Government. The overall tendency, however, is for the transfer ratio to increase under National governments and to fluctuate under Labour governments, although typically only around the levels established by National. The transfer ratio only marginally exceeds the

maximum level under National in the two main years of increase under Labour (1958 and 1974). Hence the main periods of increase in the transfer ratio are initiated by National governments. Under the second Labour Government, the transfer ratio declined, but at no time was income redistributed to the working class, while in each year of the third Labour Government, excepting 1975, it increased.

The way Marxists have traditionally evaluated the welfare state is fundamentally altered in the light of the net-tax data generated in this study. Both Martin's and Pearce's studies illustrate the dangers of effecting 'one-sided' analyses of the welfare state. Taxation and state expenditure are not systematically combined, therefore a partial and even distorted picture of the 'success' of the welfare state *vis-a-vis* the working class emerges. The full picture only becomes visible when the two are woven together; the contribution of this study to the debate over the working class and the welfare state is to do precisely this by empirically operationalizing the concept of 'net-tax'.

The only studies in the New Zealand literature which attempt comparisons of taxes paid and state expenditures received by the working class as a whole, are those of Bedggood and Pearson *et al.* It was noted in Chapter One that according to the findings of both studies the state has not redistributed income to the working class. However, in neither study was the disparity between taxes paid and state expenditure received empirically quantified in precise terms. Thus, by estimating net-tax, this study both lends support to their findings and moves a step beyond their work.

It must be noted, however, that both studies take into account wage-earners 'access' to the components of social wage, an issue which has hitherto been abstracted from in this study. Undoubtedly, this is an important factor for, as Gouverneur points out,

> the accessibility of collective goods or services may be limited on statutory grounds (thus social services are intended only for the needy) or simply by hard facts (thus motorways are not accessible to wage-earners who cannot afford a car, universities are closed to all the victims of the educational and social selection process . . . .[1]

Bedggood argues that the accessibility of education, health and housing to workers in New Zealand is limited, mostly by what Gouverneur terms the 'hard facts' of the capitalist system.[2] For instance, Bedggood demonstrates that increases in education expenditure have typically accrued to tertiary institutions, yet the overwhelming proportion of the set of individuals 'selected' to ascend the educational ladder to university are the progeny of the ruling class.[3] Pearson et al. also focus on workers access to social wage expenditures. In relation to health they cite the interesting case of the 'Inverse Law of Health Care' found by Salmond to operate in New Zealand, whereby those who need health care the most in fact have the least access to it.[4]

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[1]Gouverneur, p.82, n.31.
[2]Bedggood, pp.98-113.
[3]Bedggood, pp.103-104.
[4]Pearson et al., p.100. For a discussion of the 'law' in question, see: G. Salmond, 'Inequality of Health Care Delivery', New Zealand Journal of Public Administration, v. 37, no. 2, 1975, pp.73-90.

In this study, 'shared' expenditures such as health and education have been allocated to the working class on the assumption that wage-earners consume the same proportion of these expenditures as the share of direct taxes they pay. It was noted in Chapter Three that this is merely a working hypothesis, and that it need not reflect their actual consumption of shared expenditures. If the arguments of the foregoing authors are taken into account, workers are unlikely to have consumed the portion of shared expenditures allocated to them each year. This is especially so, given that the Labour Share of Direct Tax, and hence the proportion of shared expenditures workers are considered to consume, almost doubles from 27% in 1949 to 52% in 1975. However, any overestimate in this regard will underestimate the true level of net-tax, i.e., it will mean that the actual amount of income transferred by the state from labour to non-labour is even greater than that calculated in this study.

Undoubtedly, the net-tax methodology needs to be further refined in this area by developing a more accurate means of estimating the state expenditure that accrues to the working class. However, even if the true extent to which workers actually consume state expenditure is not reflected in the transfer ratio, this study at least provides an empirical *estimate* of the difference between workers consumption of, and financing of, state expenditure. In doing so, it moves a step beyond the work of Bedggood and Pearson *et al.*, who deal in detail with the thorny issue of access to the elements of the social wage but leave the more fundamental task, that of empirically quantifying what has been termed in this study 'net-tax', largely incomplete. The issue of wage-earners

access to social wage expenditures can only be factored into the equation after an analysis of this type has been carried out; it should not be substituted for such an analysis.

(4.5) Implications of Trends in the Transfer Ratio

In light of the results discussed in the preceding sections, and in relation to the 'scenarios' outlined in Chapter One, it is apparent that Scenario One obtains in all except one year of the time period under consideration, to wit workers have indeed surrendered more wealth in taxes to the state than the income they received back in the form of the state-provided social wage. In the language of the argument developed in Chapter Two, the taxes that fund the social wage have consistently been a *deduction* from wages. In other words, the source of income funding the social wage has always been located in the taxes paid by the working class itself. Further, the social wage (LPTGE) has lagged so far behind Total Taxes on Labour Income that, not only has the working class funded its own social wage *in toto*, redistribution of income from the working class to non-labour (the capitalist class and the state) has been the norm throughout the period under consideration.

Additionally, trends in the data indicated a marked change in the pattern of inter-class redistribution toward the end of the long boom. This is not to deny that increases in the social wage occurred in the years of incipient crisis - these have been documented in the LPTGE curve. Rather, the trend established in the mid-1960s continued: the cost of increases in the social wage has been off-loaded onto the working class

by means of increased taxation, i.e. the state has funded increases in the social wage by merely redistributing income *within* the working class. The net effect of this situation is that the portion of workers' taxation that can be considered a social wage *declined* as the long boom faded.

Rather than the social wage enabling workers to enhance their living standards, taxes and the social wage have been manipulated by the state to the extent that the living standards of the working class *as a whole* have not risen. To be sure, if the social wage has equalized living standards within the working class it may have enabled some workers to maintain their living standards, but the arguments discussed in the preceding section regarding workers' access to the various elements of the social wage suggest otherwise.

Insofar as net-tax paid by labour consistently has a positive value, a portion of workers' taxes have been a form of surplus value (the portion redistributed by the state to non-labour) in every year in the data series except 1962. If it is accepted that workers have an interest in retrieving the taxes lost to the 'other side' (as was argued in Chapter Two), the state can be considered to owe them a considerable sum of money. In a sense, therefore, this can actually be considered as a debt, the size of which is considerable, amounting to 3671.26 million (constant 1975) dollars over the twenty-seven years from 1949 to 1975. Furthermore, under capitalism it is usual for debts to incur interest, which renders the size of the state's debt to the working class even greater.

It should be reiterated at this point that, insofar as 'non-labour' includes both the capitalist class and the state itself, a net-tax time series comparing the wealth the capitalist class received from the state to the taxes paid by this class cannot be calculated. For this reason the fact that net-tax paid by labour (the working class) has a positive value throughout the period under consideration, in all but one year, cannot be taken as evidence that the sum of net-tax the capitalist class paid in this period has consistently had a negative value. In that the state is included in 'non-labour', the wealth transferred from the working class to non-labour need not have accrued to the capitalist class - it may have been absorbed *in toto* by the state itself. Nonetheless, given the high values toward the end of the data series, it is not unreasonable to assume that the state transferred at least a portion of net-tax paid by the working class to the capitalist class.

This yields interesting results *vis-a-vis* the relationship between the direct (or 'private') wage and the social wage. Insofar as wage-earners have financed a greater proportion of state expenditure than they themselves have consumed, the direct wage has had to absorb *more* than the cost of the state-provided social services and monetary benefits collectively consumed by wage-earners; the direct wage has been partially used to finance the state expenditure consumed by the capitalist class. This has been the case even during the period of the long boom in New Zealand, and it increased drastically as the long boom waned in the early 1970s and economic crisis reasserted itself.

That the transfer of income is merely *within* the working class is a particularly significant finding in light of the jingoistic attitudes toward the unemployed and other welfare beneficiaries nurtured amongst the more affluent layers of New Zealand society by the crisis in the early 1970s. Far from the capitalist class 'subsidizing' the victims of capitalist crisis, the burden of 'reproducing' working class individuals forced outside of the wage-relation fell upon those within the working class 'fortunate enough' to be able to to sell their labour-power. Moreover, rather than the capitalist class subsidizing the working class, the employed segment of the working class has actually subsidized the capitalist class. In light of this finding, the reader will be left to decide the identity of the truly parasitic element in society.

(4.6) International Comparisons

Only rudimentary comparisons to Tonak's and Freeman's data can be made, because neither analyses their data in the fashion attempted in this study.[1] Additionally, their studies focus on different time-periods. Freeman's encapsulates the two recent periods of economic crisis (1974-75 and 1981-82) in Britain, whereas Tonak's incorporates the period of the long boom and the years of nascent economic crisis at its end.[2] Nonetheless, some general indications of the differences in the

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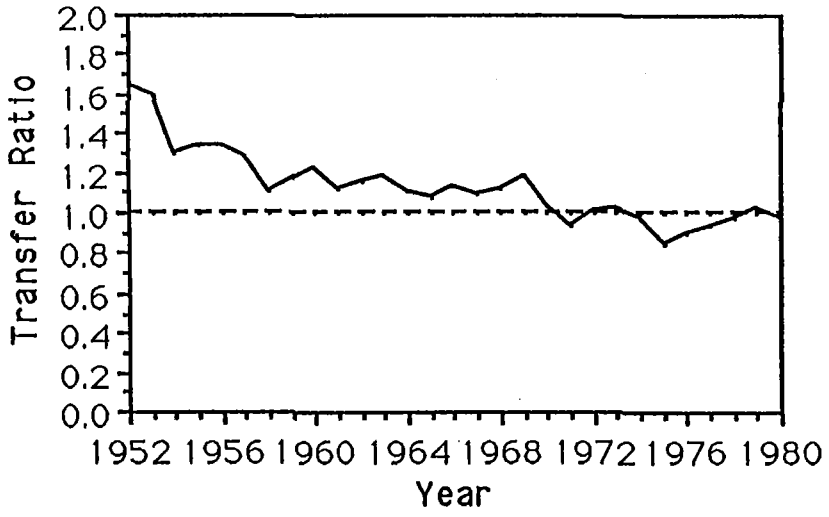
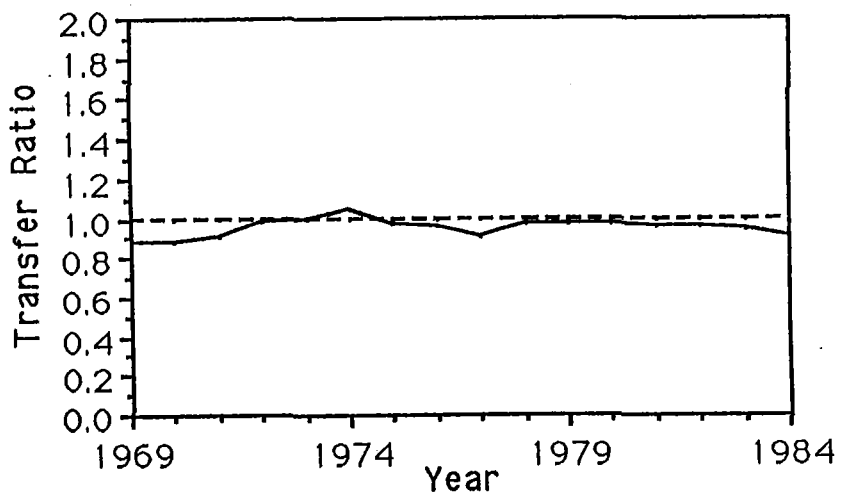
[1] In the unpublished paper from which the transfer ratio constructed by Freeman is drawn, the curve is not even plotted.

[2] Ernest Mandel dates the long boom in the U.S. from 1951 to around 1965 ('Late Capitalism', p.178). The recession of 1969-71 was the first in a series of economic downturns in the American economy thereafter. Notable amongst them was the recession of 1974-75, itself a reflection of a world-wide economic downturn ('Late Capitalism', p.122).

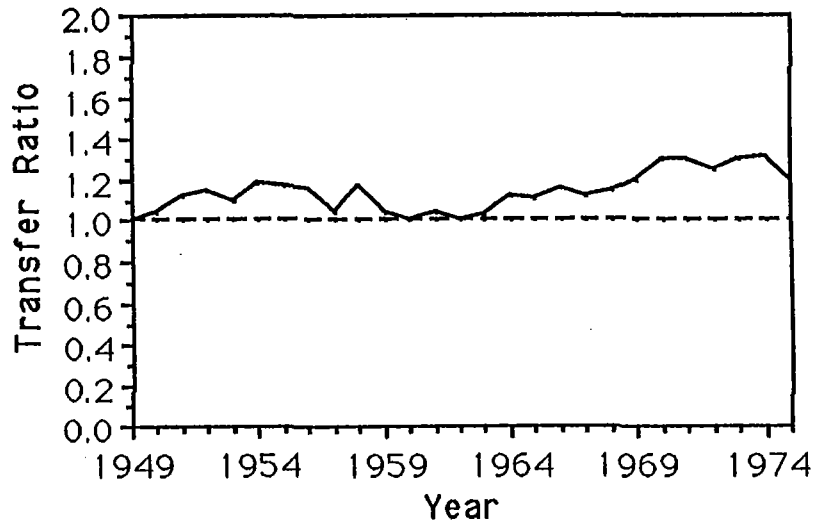
Graph 4:12 Tonak's (Welfare-Adjusted) Transfer Ratio



Graph 4:13 Freeman's Transfer Ratio



Graph 4:1 Transfer Ratio 1949-1975



pattern of income redistribution effected by the state in each of the three countries emerges from a comparison of the transfer ratio curves.

It will be immediately apparent from Tonak's curve (Graph 4:12) that the movements of the transfer ratio in the long boom and early years of crisis in the U.S. are somewhat different from the pattern in New Zealand. The transfer of income from labour to non-labour is at its highest point in the first year in his data series (1952), and then displays an uneven downward trend. Whilst this is similar to the pattern of income redistribution in New Zealand, the transfer ratio constructed in this study (Graph 4:1) progressively increases after 1962, whereas Tonak's continues its downward trend. Furthermore, at certain points in the 1970s there *is* a small degree of income redistribution from non-labour to labour in the U.S., as is indicated Tonak's curve dropping below 1.00. Whereas the state in New Zealand *increasingly* effected a redistribution of income from labour to non-labour as the crisis proceeds, the state in the U.S. does not. Nonetheless, the degree of redistribution from non-labour to labour is slight when compared to the curve's overall progression, which leads Tonak to conclude that the welfare state in the U.S. has *not* benefitted the working class.[1] On the strength of the results generated in our study, such a claim is all the more warranted in relation to New Zealand.

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[1]It must be noted that Tonak's 'Unadjusted' transfer ratio drops below unity only twice (1975 and 1976). For a discussion of the differences between the 'unadjusted' and 'welfare-adjusted' transfer ratios, see Chapter Three.

The transfer ratio constructed by Freeman and plotted in Graph 4:13 exhibits a trend closer to our own, although only six years (1969-75) are common to both studies. His curve exceeds 1.00 only in 1974 - which, coincidentally, is the highest point in our curve. In Freeman's curve, however, it is the only year in which the state effected a redistribution of wealth from labour to non-labour, whereas this is the normal state of affairs in New Zealand. Further, the highest point in his ratio is only marginally greater than the lowest point in ours. Nonetheless, his transfer ratio does increase from 1969 to 1974 (the years leading up to the crisis), which accords with our transfer ratio, and interestingly enough his curve tapers off *after* the crisis asserts itself. Whilst there is a comparable downturn in our transfer ratio in 1975, as the final year in our data series, the true significance of this movement cannot be ascertained.

Freeman's results can be compared with Tonak's over the years 1969-80. While Freeman's curve increases from 1969 to 1974, Tonak's decreases to 1971 (dipping below the 1.00 level), increases in 1972 and 1973, and then falls again in 1974. Freeman's transfer ratio dips in the late 1970s, flattens out, then begins to decline again in the early 1980s, whereas Tonak's dips in 1975 and *increases* in the late 1970s.

One of Freeman's stated aims is to assess whether the state in Britain had "buffered the effects of the crisis, made it worse, or made no difference."[1] It must be concluded that the state has worsened the effects

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[1]Freeman, p.1.

of the crisis in 1974-75 that Freeman identifies, insofar as it increasingly redistributes income from labour to non-labour, whereas in the crisis of 1981-82 the state appears to have insulated the working class to a certain degree. Similarly, Tonak's data suggest that in the recessions of 1969-71 and 1974-75 in the U.S., the state has to a small degree insulated the working class. In New Zealand, however, it is patently evident that the state has *worsened* the effects of the recession in 1974-75.

These points merit further attention, and a more systematic comparison of the three data sets would undoubtedly be a worthwhile endeavour. But it would require extending the transfer ratio calculated in this study beyond 1975 and further unpacking Freeman's and Tonak's data. Patterns in the transfer ratio generated in this study were linked to the vicissitudes of New Zealand's economy. Undoubtedly a similar type of analysis would have to be carried out in order to shed greater light on Tonak's and Freeman's data, seeking detailed correlations with economic fluctuations. Neither theorist engages in this task, and it falls outside the ambit of this study.

In the absence of such an analysis, only general observations can be made. The main point to emerge from the rudimentary comparison of the curves above is that it appears that the effect of economic booms and crises on the degree and direction of income redistribution effected by the state in the U.S. and Britain is different to that in New Zealand. The pattern of income redistribution in Britain bears some resemblance to that in New Zealand, although it must be reiterated that only six years

are common to Freeman's and our studies. On the other hand, the pattern of income redistribution in the U.S. depicted in Tonak's curve exhibits some similarities to that in New Zealand up until 1962, and thereafter is quite dissimilar.

(4.7) Summary

The most salient finding to emerge from the analysis of the net-tax data in this chapter is that, in the years 1949-75, workers in New Zealand have consistently ceded more taxes to the state than the income returned to them by the state in the form of the social wage. Only in 1962 did the state transfer income to the working class, but the amount transferred was insignificant to the point that it was not even registered by the transfer ratio - it merely appears that workers paid the same in taxes as state expenditure received. For the remainder of this period, the state has redistributed income from labour to non-labour in a not insubstantial amount.

From a comparison of the transfer ratio curve to the curve of capitalist development in New Zealand, it was found that the degree to which the state transfers income away from the working class is related to economic trends. If, on the basis of the 'synchronization' (to use Trotsky's term) attempted in this chapter, the lines of causality are taken as running from the economic base to the superstructure, it can be argued that changes in the redistributive activities of the state are governed by the tendential movements of the economy. Although the "intermediary variables" (to use some positivist jargon) at the heart of

the "correlation" between the dynamics of capitalist economic development and the degree of income transference cannot be identified, the broad correspondences outlined in this chapter do shed some light on the determinants of the levels of the transfer ratio in New Zealand. The limitations of the data analyses attempted by Tonak and Freeman did not allow a detailed comparison of the transfer ratios they constructed to economic fluctuations in the U.S. and in Britain, but the analysis that was carried out indicated that, in relation to the patterns of economic boom and crisis in these countries, the transfer of income effected by the state was on the whole different to that in New Zealand.

The net-tax data commented on in this chapter move beyond the conventional indicators of rating the 'success' of the welfare state. Only by effecting a synthesis of taxes paid and state expenditure received at the level of the working class as a whole, via the net-tax methodology, can the true performance of the welfare state *vis-a-vis* the working class be ascertained. Thus, this study supersedes fragmentary analyses of the welfare state, which focus either on taxation or on state expenditure, and allows the true picture to be seen - an altogether dismal one at that.

Chapter Five: "The Question Is Where Should This Redistribution Stop?"

(5.1) Introductory Remarks

The title of this chapter is the concluding comment of a recent essay by one of New Zealand's bourgeois economists on the justification for redistribution of income by the state in capitalist society. The full quotation reads as follows:

> Given these differences [in skills, work effort, educational attainment and the like], one could argue that different incomes are merited and redistributing incomes could equally need justification. Economists would point to the conflict between equity and efficiency but note that most Western societies have consciously viewed the redistribution of income to their most disadvantaged members as appropriate. The question is where should this redistribution stop?[1]

To some readers this may seem to be a magnanimous gesture on the part of Messrs the bourgeois economists toward the working class, which is generally where the "most disadvantaged members" of capitalist society are located, but they fail to ask where the income that is redistributed to these workers originates from. The primary aim of this study was to ask that very question. In the course of the analysis an interesting answer emerged.

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[1]Buurman, 'Social Welfare', p.269.

(5.2) The Research Problem Once Again

This thesis began by drawing attention to the economic crisis New Zealand is presently experiencing and the attendant breakdown of the social democratic 'class compromise' which had carried this country through the period of the long boom. One of the manifestations of this political shift is an onslaught on the welfare state. For over thirty years a seemingly monolithic inviolate, in the 1980s this institution became a whipping-boy blamed for everything from the economic crisis itself to sapping the 'will to work' of a whole generation.

For Marxists attacks on the welfare state are only of concern insofar as they detrimentally affect the living standards of the working class. Thus, it was argued in Chapter One that the Marxist reaction to the 'crisis of the welfare state' must be founded on a critical examination of the historical 'track record' of the welfare state in relation to the working class. To this end, this study undertook to put the welfare state 'on trial' so to speak. This task was rendered all the more important by the global claims of some Marxists that the welfare state has benefitted workers, their claims bearing close resemblance to those of the social democrats themselves.

The term 'welfare state', however, denotes a diverse array of institutions and activities. For this reason, the focus of this study was restricted to the impact of the state on the redistribution of income between social classes. More specifically, in providing a social wage and levying taxes, does the state redistribute income to the working class or

away from the working class? This question had hitherto scarcely been posed by Marxists in New Zealand, let alone been answered on a systematic basis.

To a large extent, however, this was more for the want of a methodology with which to quantify the redistributive activities of the state in relation to social classes, than anything else. Faced with this problem an American Marxist, E. Ahmet Tonak, recently developed a methodology to estimate a quantity termed 'net-tax', defined as taxes paid by workers less the state expenditure they receive as a social wage. This study sought to apply Tonak's innovative method to New Zealand in order to estimate net-tax paid by the working class in this country in the years 1949-75.

Whilst Tonak made a *methodological* breakthrough with his conceptual category of 'net-tax', particularly in furnishing techniques to establish the social wage as an empirical quantity (thereby solving what has been labelled in this study the 'small' problem of estimating the social wage), it was felt that there were fundamental *theoretical* issues that he neglected. He, too readily, took as unproblemmatic the whole notion that workers 'consume' a portion of state expenditure as a social wage - which, it was argued in Chapter Two, is based on the assumption that the taxes used to finance this expenditure originate in variable capital (later broadened to the generic category of 'wages' in light of the productive/unproductive labour debate), rather than in surplus value. Thus he neglected what was termed in this study the 'large' problem of estimating the social wage and in so doing skipped over a whole set of

Marxist debates regarding taxation and state expenditure. Indeed, he did so to the extent that his methodology could be criticized for bearing closer resemblance to a neo-Ricardian 'income shares' approach, wherein Marxian value-categories are thrown to the wind, than something a Marxist might use.

In light of the foregoing, a detailed theoretical discussion was required in Chapter Two in order to clear this 'undergrowth' of debates out of the way before the empirical analysis could proceed. In this chapter I sought to retain the insights of Marxian value theory as it applies to taxation, in order to advance beyond - to repeat Fine and Harris's superb little formulation - "the 'bourgeois' ideology that taxation falls on the individuals who pay it", while at the same time keeping the empirical point of origin of taxes clearly in view; for if this is lost sight of the need for an empirical analysis of income redistribution also slips from view.

It was established that not all taxes need to be considered as originating in surplus value as some Marxists claim. Rather, the portion of taxes funding the state expenditure accruing to workers as a social wage originates in the 'wages' portion of new value, and not surplus value. Chapter Two simultaneously provided the rationale for an empirical study of the type attempted using Tonak's method, on the basis that the taxes funding the social wage can empirically originate in workers' own taxes (as a *deduction* from wages) or in the taxes paid by the capitalist class (as a *form* of wages).

(5.3) Results of the Empirical Analysis

In Chapter Three Tonak's method of estimating net-tax was outlined, and a framework was developed to use in empirically operationalizing this concept, using New Zealand national accounts data, for the years 1949-75. Interestingly enough, on examining the results in Chapter Four, it transpired that net-tax paid by the working class has had a positive value in every year except 1962. Thus, in all but one year of the twenty-seven covered in this study, the taxes used by the state to fund the social wage have been a deduction from wages, i.e. they have empirically originated in taxes paid by workers themselves.

In response to the comments of the bourgeois economist cited at the opening of this chapter, even if wealth has been redistributed by the state to the "most disadvantaged" members of society (the lower stratum of the working class) the net-tax data prove that it has merely been redistributed from other disadvantaged members of capitalist society, namely other members of the working class. This study does not dispute that redistribution of income *within* the working class has occurred. To the contrary, it has actually been established by calculating net-tax paid by the working class that the income redistributed by the state to members of the working class has only ever been from *other* members of the working class elsewhere in society. In other words, the redistributive activities of the state in relation to the working class are such that intra-class income redistribution is the norm for the period under consideration.

The conclusion is readily apparent: the working class as a whole has financed its own social wage. Furthermore, insofar as net-tax has a positive value, income has consistently been redistributed by the state from the working class to 'non-labour' (the capitalist class and the state itself). Far from workers having a material 'interest' in the welfare state, the state actually owes them a considerable sum of money. The size of this debt was empirically quantified in Chapter Four: 3671.26 million (constant 1975) dollars.

The amount of income redistributed by the state from labour to non-labour varied from year to year, although distinct trends were evident in the transfer ratio which was constructed using the net-tax data. A cursory comparison of trends in the transfer ratio to the curve of capitalist development in New Zealand revealed that the extent to which income was transferred by the state from labour to non-labour was at its lowest point during the period of the long boom and was at its apex in the initial years of economic crisis at the end of the long boom. In order to explicate this pattern, fluctuations in the transfer ratio were compared to fluctuations in the economy. In general it was apparent that the transfer ratio fluctuates in accordance with economic fluctuations, falling in periods of economic growth and increasing in periods of economic decline. This suggested that trends in the degree of income transference bear some relation to the development of New Zealand's economy.

On the other hand, comparisons to the data generated by Tonak in the U.S. and Freeman in Britain yielded divergent results. As the long

boom in the U.S. faded, the degree to which the state redistributed income from labour to non-labour *declined*, and in certain years the state actually redistributed income from non-labour to labour. On the other hand, the economic crisis in Britain in the early 1970s did correspond to an increase in the transfer ratio constructed by Freeman, but it indicated a transfer of income from labour to non-labour only once in the years 1969-84. In the remainder of this period the state in Britain has redistributed income from non-labour to labour, i.e. workers have been the recipients of a transfer of income. Further, in the crisis of 1981-82 the curve actually indicates a slight *increase* in the amount of income redistributed to the working class. The conclusion was drawn that the impact of economic fluctuations on the redistributive activities of the state in both the United States and Britain differs markedly from that in New Zealand.

The transfer ratio sheds new light on studies such as Russell's, which consider the state-provided social wage to be an important factor in securing the reproduction of labour-power.[1] The results of this study suggest that, at least in New Zealand, the reproduction of labour-power by the state has been secured at the expense of workers themselves. Furthermore, a portion of workers' taxes has been used to 'reproduce' the capitalist class and the state! The question is thereby raised: why is the state involved in the reproduction of labour-power in the first place, if it merely shuffles income within the working class?

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[1]B. Russell, 'The Crisis of the State and the State of the Crisis: The Canadian Welfare State Experience', Family, Economy and State: The Social Reproduction Process Under Capitalism, ed. J. Dickinson and B. Russell. London, Croom Helm, 1986.

First, this shuffling of incomes can be economically beneficial to the capitalist system in assuring the reproduction of labour-power, which if left to the wage relation need not occur. Wayne suggests that redistributing incomes within the working class is an important solution to a phenomenon he terms "the crisis of working class reproduction":

> The uneven distribution of wages on the one hand and consumption needs on the other means that some families have a surplus of income over subsistence costs, while other families have a deficit.[1]

In this context, the redistributive activities of the state can function to reproduce 'poor' working class families from the taxes of others that are 'not as poor'. Indeed, he asserts that this is the primary "economic function of social welfare", namely "to act as a redistributive mechanism for money among working class families".[2] Owing to the fact that the true degree of intra-class income redistribution cannot be ascertained from the transfer ratio, the extent to which Wayne's argument holds in the context of New Zealand cannot be systematically tested out. Nonetheless, it does provide a promising avenue for further inquiry.

Second, intervening to manipulate workers' income levels is a potent mechanism of social control at the state's disposal. This is so in a double

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[1]J. Wayne, 'The Function of Social Welfare in a Capitalist Economy', Family, Economy and State: The Social Reproduction Process Under Capitalism, ed. J. Dickinson and B. Russell. London, Croom Helm, 1986, p.80.
[2]Wayne, p.80.

sense. As noted previously, by redistributing income within the working class, the state may well have used the social wage to cajole a portion of the working class into accepting the capitalist system as the guarantor of a minimum standard of living. However, even if the degree of intra-class income redistribution is not great, the social wage *as ideology* can perform an important role in reproducing capitalism.

It is interesting to note that, more recently, attempts have been made by bourgeois politicians in New Zealand to use the notion of the 'social wage' to hold increases in 'direct' wages down. For instance, in 1988, Deputy Finance Minister Mike Moore - entrusted with the task of securing a 'compact' with the trade unions - coined the term 'social wage', emphasized its amount and explicitly linked it to the level of 'direct' wages.[1] As one commentator insightfully observed at the time: "The social wage looks likely to be a part of . . . [the] compact", and that "the government intends to trade off wage demands (which was what Moore hinted) against continued and enhanced social services".[2]

By turning the 'social wage' on workers as an ideological ploy to hold wages proper down, the ideology of the social wage can be useful to the bourgeois state in a period of economic crisis. Interestingly enough, this

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[1]At one point, he even went so far as to provide an estimate of the social wage received by a hypothetical furniture factory worker. Interestingly enough, the "social wage paid by the government", as he puts it, boosted the hypothetical workers income by $321.33 from $369.91 to $691.24 (Appendix to a speech delivered by the Honourable Mike Moore on October 20 1988). But as this study demonstrates, at least up until 1975, the social wage was funded out of workers' own taxes. If this trend continued after 1975, the social wage received by this worker will have been paid for by himself or herself and other members of the working class out of their own taxes.

[2]National Business Review, September 23, 1988.

parallels similar developments in Britain in the mid-1970s.[1] At some point, however, problems of legitimation must arise, especially in the case of New Zealand where, since the onset of the crisis, workers have contributed an ever-increasing amount of tax to the state, yet have received an ever-diminishing proportion back as a social wage.[2] Beyond these general statements, however, the answer to why the state is involved in the reproduction of labour-power must be sought in a systematic diachronic analysis of the origins of the state-provided social wage in New Zealand, a topic necessarily beyond the scope of this study.

(5.4) Limitations of Study and Issues for Subsequent Research

The limitations of this study fall into two categories. The first relates to the techniques employed in applying Tonak's method to New Zealand. The second involves further refining Tonak's method *per se*, and from this springs the areas in which subsequent research is required. Each category will be dealt with in turn.

Bearing in mind that Tonak developed the net-tax methodology in an American milieu, using that country's national accounts, the application of Tonak's methodology attempted in Chapter Three involved

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[1]Gough notes the increasing use of the term 'social wage' by bourgeois politicians in Britain, and that "government ministers are . . . prone to compare the value of this social wage with the private and personal wage earned from labour. According to Mr Healey in his April 1975 Budget speech, the social wage was then worth the equivalent of £1000 for every adult member of the working population in the United Kingdom"(Gough, p.108).

[2]For a discussion of legitimation, see C. Offe, Contradictions of the Welfare State. London, Hutchinson and Co., 1984, pp.130-146.

configuring New Zealand's national accounts in accordance with his conceptual framework. Greater precision is required in four key areas in order to enhance the accuracy of the net-tax data.

First, a closer approximation of the amount of indirect tax paid by the working class is required. In this study, workers were assumed to pay the same percentage of indirect taxes as their share of consumption expenditure. This overestimates the amount of indirect taxes they pay by an unknown amount and it will bias the results by exaggerating the extent to which redistribution of income from labour to non-labour occurs. Thus, the true net-tax values will in fact be lower than those calculated in this study. But it should be noted that this procedure is more accurate than Tonak's. Workers' share of total consumption expenditure at least bears *some* relation to the amount of indirect taxes they pay. Tonak simply assumes that workers pay the same percentage of indirect taxes as income taxes. Furthermore, the technique he uses to estimate the percentage of income taxes workers pay is not very accurate. It can be stated with a reasonable degree of confidence that taxation is less a source of inaccuracy in this study than in Tonak's, but that further work needs to be done in this area.

Second, capital expenditure by the state needs to be dealt with in a more satisfactory manner. It should be reiterated that it is unclear whether Tonak excludes or includes capital expenditure in the estimation of his net-tax time series. For this reason, criteria had to be established to use in deciding how capital expenditure should be dealt

with in this study. It is certain that simply incorporating *gross* capital formation figures would seriously distort the results.

For capital expenditure to be included, an accurate functional classification of the various components of gross capital expenditure is required. Although one is not available in the national accounts themselves, the Planning Council, in one of its publications, provides a crude classification of gross capital expenditure by function. However, a depreciation allowance for each category of gross capital expenditure also needs to be calculated for capital expenditure to be included in the estimation of net-tax. A portion of the depreciation allowance could then be allocated to labour and non-labour reflecting the capital expenditure 'consumed' by each. As yet, there is no basis from which to systematically engage in the task of estimating depreciation allowances. Therefore, owing to the limitations of the data base, capital expenditure has had to be excluded from this study altogether.

Third, a more sophisticated technique must be devised to allocate 'shared' state expenditure to the working class. In this study, it has simply been assumed that workers consume 'shared' expenditures such as health and education in the same proportion as the percentage of direct taxes they pay. Although this follows Tonak's approach to the problem, greater accuracy is still required in estimating the portion of 'shared' expenditures consumed by workers.

Fourth, the *working class* needs to be empirically identified with greater accuracy in order to gain a more precise estimate of the net-tax

it pays. Because the data-base does not allow workers to be separately identified, in this study the working class has been equated with all salary and wage-earners. However, insofar as this is a result of the constraints associated with the source of data, little can be done to overcome it.

Tonak's method, innovative though it is, needs to be further developed along a number of axes. Foremost among these is the need for the method to be modified in order to estimate net-tax paid by the capitalist class, independent of the state. Empirically quantifying both the degree to which the state 'subsidizes' the capitalist class from the taxes of the working class, and the amount of wealth soaked up by the state itself, would facilitate an understanding of the impact of the state's redistributive activities on capital accumulation.[1]

This modification to the net-tax methodology is likely to shed greater light on the correspondences between the degree of income redistribution and economic fluctuations identified in Chapter Four. Although the lines of causality were assumed to run from the economy to the state, such that the degree of income redistribution is governed by economic fluctuations, equally the state's redistributive activities could themselves be a semi-autonomous cause of economic fluctuations. Tying the redistributive activities of the state into the dynamics of capital accumulation would cast further light on whether the state is itself a causally efficacious factor in economic crises, as the 'profit-

[1]Tonak himself identifies this as the prime area for future research (Tonak, p.65).

squeeze' school within Marxism (along with the Monetarists) claim. Furthermore, it may also provide insights into the international differences in the patterns of income redistribution highlighted in the previous chapter.

Another area where further work needs to be done is that of separating out net-tax paid by elements of the class structure other than workers and capitalists. Undoubtedly, the 'two-class schema' adhered to in this study oversimplifies the contours of New Zealand's class structure. In light of the matrix of class forces in New Zealand in the period under consideration, it would be of particular interest to estimate net-tax paid by farmers and by the petty bourgeoisie. However, this would of course require that the modification to Tonak's method outlined in the preceding paragraph first be made.

There is also a pressing need to tease out the extent and nature of the degree to which the state redistributes income within the working class. While it can be ascertained from the transfer ratio that the working class as a whole has not benefitted from increases in the social wage, this would facilitate an understanding of whether some groups of workers have benefitted at the expense of others. More specifically, whether income has been redistributed from the upper stratum to the lower stratum of the working class or vice-versa. Similarly, it would prove worthwhile to estimate net-tax paid by the various strata within the working class along the lines of race and gender. This would provide evidence to use in assessing whether, in securing the so-called social democratic 'class compromise' at the heart of the long boom in New

Zealand, distinct groups within the working class have been 'bought off' via increases in the social wage. Whilst modifying Tonak's method to estimate net-tax paid by certain groups of workers would be a relatively simple task, unfortunately the data-base used in this study does not allow such distinctions to be drawn.

(5.5) Retrospective and Prospective Remarks

The point was made in Chapter One that the intention of this study is not to determine the appropriate reaction by Marxists to attacks on the welfare state, but instead to supply cold, hard evidence to be taken into account in formulating this reaction. In light of the findings of this study, it can be concluded that the welfare state has not materially benefitted the working class in New Zealand. This conclusion necessarily ramifies into the sphere of political praxis.

But Marxists are having to react to attacks on the welfare state here and now, and the net-tax time series ends in 1975. The possibility has to be entertained that the pattern of income redistribution may have markedly changed in the years that ensued, and any conjectural remarks must be tempered by the fact that the extent of the state's redistribution of income after 1975 is simply not known. Indeed, the strength of Tonak's method is that it affords a *precise* empirical quantification of the redistributive activities of the state, allowing the debate to move beyond mere speculation - which is the largely the level it has proceeded on up until now. Therefore, rather than speculating at length on developments after 1975, having demonstrated the validity and utility

of Tonak's method, it now remains to apply it to the 'new' set of national accounts in New Zealand (the 'New Zealand System of National Accounts') in order to bring the net-tax time series up to date. Nonetheless, a few prospective remarks are in order.

If the pattern identified in Chapter Four continues, with the transfer ratio falling in periods of economic growth and increasing in periods of economic stagnation, the degree of income redistribution from labour to non-labour is unlikely to have decreased to any significant degree given that New Zealand's economy has largely stagnated in the fourteen years from 1975 to 1989.[1] Certainly there is little likelihood that the state began to redistribute income wholesale from non-labour to labour - this did not occur even during the long boom. In any case, even if it did happen after 1975, the amount of income redistributed is unlikely to have been of a magnitude sufficient for the state to have repaid its 'debt' to the working class, accumulated over the twenty-six years prior to 1975.

In light of the foregoing, one answer to the question posed in the title to this chapter is that whether the pattern of income redistribution will swing back in favour of workers ultimately depends on the dynamics of capital accumulation. There is, of course, another answer that can be given. For although the focus of this study has been on the role of the state in redistributing income between the classes in New Zealand, it must not be allowed to divert attention away from the set of social

[1]For instance, in the years 1976-86, GDP increased at a yearly rate of only 1.54% (Roper, p.30).

structural arrangements determining the initial distribution of income. In Marx's own words:

> Any distribution whatever of the means of consumption is only a consequence of the distribution of the conditions of production themselves. The latter distribution, however, is a feature of the mode of production itself. The capitalist mode of production, for example, rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, while the masses are only owners of the personal condition of production, of labour power. If the elements of production are so distributed, then the present-day distribution of the means of consumption results automatically.[1]

Thus, the potential for the "means of consumption" to be redistributed by the state is necessarily subject to the constraints imposed by the social organization of production in capitalist society. In this light, even if workers in New Zealand were able to turn the tide of income redistribution back in their favour, it would not be a permanent solution to their plight; at best it would serve only to temporarily mitigate the worst excesses of the capitalist system. The social wage under capitalism is only a pale reflection of a true system of social wages, wherein this type of redistribution would be put paid to once and for all. However, realizing this latter system requires our attention to remain focussed on the realm of production - the true locale of the class struggle - and not the realm of distribution, to the end of effecting a qualitative transformation in the state and society such that wealth can

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[1]K. Marx, 'Critique of the Gotha Program', The Marx-Engels Reader, ed. R. Tucker. New York, W. W. Norton, 1978, p.531.

be distributed according to the principle best enunciated by Marx: "From each according to his ability, to each according to his needs!"

Appendix One: Calculation of Net-Tax

Format of the Data

The manner in which the categories of the national accounts have been conceptually configured in accordance with the net-tax methodology, in order to provide the basis from which to empirically operationalize the concept of 'net-tax', is outlined in Appendix 3.1. Although the conceptual presentation of the steps involved in estimating net-tax contained therein is based on the statistics department publication entitled 'Official Estimates of National Income and Expenditure 1957-58', the source of data for each category used in the actual empirical estimation of net-tax varies from year to year. All sources of these data are identified below.

Following the sources of data are located the spreadsheets in which the net-tax category is empirically operationalized. Within the spreadsheets, the method of estimating net-tax is set out in the following manner. Each category of the data set has been assigned a column, and each column has been assigned a number in the row labelled 'Column No.'. Using these column numbers, all calculations (made in accordance with the net-tax methodology outlined in Appendix 3.1) are identified in the row labelled 'Operation'.

Cells in the 'Operation' row in which only one column number (and hence no arithmetic operation) appears, indicate that the column in question contains data which has simply been reproduced from another

column. For instance, insofar as 'Salary and Wage Payments' (Column 1) is the sole constituent component of 'Gross Labour Income' (Column 3), this latter column contains a set of data replicated exactly from Column 1. A blank 'Operation' cell indicates that the column in question contains raw data drawn directly from the national accounts for use in the calculation of the various sub-categories of the phases involved in estimating net-tax.

The source of all data (except 'Labour Share of Consumption Expenditure' 1949-71) are the 'Official Estimates of National Income and Expenditure' (henceforth 'OENIE') reports. Prior to the 1966-67 OENIE report, the categories in these reports are denominated in millions of nominal pounds. On the basis that one pound is equal to two dollars, these figures have been converted to millions of nominal dollars by multiplying by a factor of two. Hence all of the categories in the spreadsheets are denominated in millions of nominal dollars.

Sources of Data

The method of presentation is as follows. The various categories used in the estimation of net-tax are first identified, and then the OENIE report, and the table within the report, from which the data has been drawn is listed, along with the years covered by each data source. Figures in parentheses indicate the column in the spreadsheet in which the data for each category is located; hence 'C1' refers to column 1, and so on and so forth.

Salary and Wage Payments (C1), Pay and Allowances of Armed Forces (C5), Company Income (C8).

OENIE 1938/39-1954/55 (Table 13 'Private Income and Incidence of Direct Taxation'): 1949-51

OENIE 1957-58 (Table 10 'Private Income'): 1952-56

OENIE 1975-76 (Table 2 'Gross National Product and Expenditure'): 1957-75

Rental Value of Owner Occupied Houses (C6), Other Personal Income (C7).

OENIE 1938/39-1954/55 (Table 3 'National Income and Expenditure'): 1949-51

OENIE 1957-58 (Table 13 'Private Income and Incidence of Direct Taxation'): 1952-56

OENIE 1975-76 (Table 2 'Gross National Product and Expenditure'): 1957-75

Government and Local Authority Trading Income (C9).

OENIE 1938/39-1954/55 (Table 3 'National Income and Expenditure'): 1949-51

OENIE 1957-58 (Table 3 'National Income and Expenditure'): 1952-56

OENIE 1964-65 (Table 3 'Gross National Product and Expenditure'): 1957-63

OENIE 1972-73 (Table 2 'Gross National Product and Expenditure'): 1964

OENIE 1975-76 (Table 2 'Gross National Product and Expenditure'): 1965-75

Depreciation Allowances (C16).

OENIE 1938/39-1954/55 (Table 3 'National Income and Expenditure'): 1949-51

OENIE 1957-58 (Table 3 'National Income and Expenditure'): 1952-56

OENIE 1975-76 (Table 2 'Gross National Product and Expenditure'): 1957-75

Direct taxes on: Salary and Wage Payments (C2), Pay and Allowances of Armed Forces (C10), Other Personal Income (includes Rental Value of Owner-Occupied Houses) (C11), Company Income (C12).

OENIE 1957-58 (Table 13 'Private Income and Incidence of Direct Taxation'): 1949-56

OENIE 1975-76 (Table 9 'Private Income and Direct Taxation'): 1957-75

Direct taxes on Government and Local Authority Trading Income (C13).

OENIE 1938-39 (Table 7 'General Government Revenue Account', Item 4): 1949-51

OENIE 1957-58 (Table 7 'General Government Revenue Account', Item 4): 1952-56

OENIE 1964-65 (Table 8 'Central Government Revenue Account, Item 4): 1957-58

OENIE 1972-73 (Table 7 'Central Government Revenue Account, Item 4): 1959-64

OENIE 1975-76 (Table 7 'Central Government Revenue Account, Item 4): 1965-75

Total Indirect Taxes (C20).

OENIE 1957-58 (Table 11 'Private Income and Total Taxation'): 1949-56

OENIE 1975-76 (Table 2 'Gross National Product and Expenditure', Item 10): 1957-75

Labour Share of Consumption Expenditure (C21).

Data series supplied by Mr Bob Calkin, Sociology Department, University of Canterbury: 1949-71

Calculated from OENIE 1975-76 (Table 2 'Gross National Product and Expenditure'): 1972-75

Monetary Social Security Benefits and Pensions (C29).

OENIE 1957-58 (Table 10 'Private Income'): 1949-56

OENIE 1964-65 (Table 8 'Central Government Revenue Account'): 1957-58

OENIE 1972-73 (Table 7 'Central Government Revenue Account'): 1959-64

OENIE 1975-76 (Table 7 'Central Government Revenue Account'): 1964-75

General Administration (C31), Interest on General Government Debt Paid Overseas (C32), Law and Order (C33), Development of Primary and Secondary Industry (C34), Defence and War (C35), Interest on General Government Debt Paid in New Zealand (C36), Subsidies (C37), Interest on Local Authority Debt Paid in New Zealand (C38).

OENIE 1938/39-1954/55 (Table 7 'General Government Revenue Account'): 1949-51

OENIE 1957-58 (Table 7 'General Government Revenue Account'): 1952-56

OENIE 1964-65 (Table 8 'Central Government Revenue Account'): 1957-58

OENIE 1972-73 (Table 7 'Central Government Revenue Account'): 1959-64

OENIE 1975-76 (Table 7 'Central Government Revenue Account'): 1965-75

Net Transfers to Rest of World (C39).

OENIE 1966-67 (Table 8 'Central Government Revenue Account'): 1950-65

OENIE 1975-76 (Table 3 'Private Income and Outlay'): 1965-75

Health (C42), Education (C43), Non-Monetary Social Security Benefits (C44), Other Social Services (C45), Rehabilitation (C46), Maintenance of Public Works and Services (C47), Local Authority Cost of Provision of Goods and Services (C48), Transfers to Local Authorities (C49).

OENIE 1938/39-1954/55 (Table 7 'General Government Revenue Account'): 1949-51

OENIE 1957-58 (Table 7 'General Government Revenue Account'): 1952-56

OENIE 1964-65 (Table 8 'Central Government Revenue Account'): 1957-58

OENIE 1972-73 (Table 7 'Central Government Revenue Account'): 1959-64

OENIE 1975-76 (Table 7 'Central Government Revenue Account'): 1965-75

Family Benefit Advances (C41).

OENIE 1972-73 (Table 7 'Central Government Revenue Account'): 1959-65

OENIE 1975-76 (Table 7 'Central Government Revenue Account'): 1965-75

Column No.:	(1)	(2)		(3)	(4)		(5)
Nat. Inc. Categs.	Salary and	Direct Taxes on		Gross Labour	Direct Taxes on		Pay & allowances
Millions of	Wage Payments	Salary and Wage		Income (GLI)	Labour Income		of armed forces
Nominal Dollars		Payments			(DTLI)		
Operation:				(1)	(2)		
1949	499.80	53.00		499.80	53.00		9.20
1950	556.40	65.00		556.40	65.00		11.80
1951	655.20	72.00		655.20	72.00		16.80
1952	695.40	88.00		695.40	88.00		21.20
1953	768.00	92.80		768.00	92.80		23.80
1954	861.40	100.00		861.40	100.00		24.20
1955	936.20	104.40		936.20	104.40		24.00
1956	989.40	123.00		989.40	123.00		25.20
1957	1068.00	93.00		1068.00	93.00		26.00
1958	1116.00	134.00		1116.00	134.00		25.00
1959	1181.00	146.00		1181.00	146.00		26.00
1960	1277.00	148.00		1277.00	148.00		27.00
1961	1365.00	168.00		1365.00	168.00		27.00
1962	1445.00	173.00		1445.00	173.00		29.00
1963	1554.00	177.00		1554.00	177.00		30.00
1964	1723.00	206.00		1723.00	206.00		32.00
1965	1890.00	236.00		1890.00	236.00		36.00
1966	2041.00	269.00		2041.00	269.00		40.00
1967	2127.00	283.00		2127.00	283.00		42.00
1968	2240.00	308.00		2240.00	308.00		45.00
1969	2493.00	346.00		2493.00	346.00		47.00
1970	3004.00	463.00		3004.00	463.00		56.00
1971	3555.00	609.00		3555.00	609.00		68.00
1972	3993.00	688.00		3993.00	688.00		70.00
1973	4767.00	873.00		4767.00	873.00		79.00
1974	5678.00	1195.00		5678.00	1195.00		84.00
1975	6476.00	1328.00		6476.00	1328.00		95.00

(6)	(7)	(8)	(9)		(10)	(11)
Rental value, own.	Other Personal	Company	Govt. and Local		Direct Taxes on	Direct Taxes on
occupied houses	Income (OPI)	Income	Authority Trading		Pay and Allowances	OPI & Rental Val.
			Income		of Armed Forces	Own. Occ. Houses
26.00	316.00	116.00	28.00		1.00	79.00
28.00	486.00	142.20	32.00		1.00	95.80
30.00	382.00	160.20	38.00		1.20	131.80
32.60	407.20	155.20	36.00		1.60	120.20
36.80	447.00	180.80	48.00		1.60	131.20
39.60	463.80	194.80	56.00		2.00	143.00
43.40	473.00	188.40	60.00		2.00	141.60
47.40	496.20	196.60	58.00		2.00	144.00
48.00	567.00	211.00	66.00		2.00	147.00
50.00	522.00	219.00	74.00		3.00	200.00
51.00	561.00	242.00	82.00		3.00	164.00
51.00	609.00	291.00	92.00		3.00	218.00
60.00	586.00	288.00	100.00		3.00	214.00
81.00	623.00	323.00	106.00		3.00	187.00
86.00	691.00	370.00	124.00		3.00	202.00
96.00	681.00	418.00	136.00		4.00	226.00
109.00	748.00	480.00	147.00		4.00	243.00
114.00	720.00	474.00	147.00		5.00	253.00
124.00	717.00	464.00	167.00		5.00	249.00
130.00	714.00	525.00	185.00		6.00	264.00
140.00	766.00	605.00	202.00		6.00	297.00
156.00	810.00	644.00	171.00		9.00	323.00
169.00	1017.00	653.00	199.00		11.00	369.00
201.00	1277.00	913.00	220.00		12.00	461.00
217.00	1390.00	1021.00	250.00		13.00	580.00
253.00	1262.00	989.00	158.00		18.00	676.00
304.00	1628.00	1174.00	123.00		20.00	767.00

(12)	(13)		(14)	(15)		(16)	
Direct Taxes on Company Income	Direct Taxes on Cent. Govt. Trading Income		Gross Non-Labour Income (GNLI)	Direct Taxes on Non-Labour Income (DTNLI)		Depreciation Allowances	
			(5)+(6)+(7)+(8)+(9)	(10)+(11)+(12)+(13)			
58.20	3.00		495.20	141.20		70.00	
64.20	3.00		700.00	164.00		78.00	
79.00	3.80		627.00	215.80		86.00	
81.80	4.80		652.20	208.40		96.00	
81.80	4.00		736.40	218.60		110.00	
92.00	5.20		778.40	242.20		126.00	
100.00	6.00		788.80	249.60		138.00	
101.00	6.00		823.40	253.00		144.00	
102.00	4.40		918.00	255.40		158.00	
106.00	5.00		890.00	314.00		166.00	
106.00	5.60		962.00	278.60		168.00	
123.00	6.80		1070.00	350.80		185.00	
147.00	7.10		1061.00	371.10		204.00	
141.00	7.50		1162.00	338.50		219.00	
160.00	8.80		1301.00	373.80		232.00	
193.00	11.00		1363.00	434.00		249.00	
208.00	11.10		1520.00	466.10		273.00	
227.00	11.00		1495.00	496.00		300.00	
230.00	12.40		1514.00	496.40		319.00	
215.00	14.20		1599.00	499.20		333.00	
238.00	16.00		1760.00	557.00		364.00	
284.00	14.60		1837.00	630.60		440.00	
297.00	13.70		2106.00	690.70		465.00	
299.00	18.00		2681.00	790.00		515.00	
388.00	20.70		2957.00	1001.70		590.00	
442.00	18.10		2746.00	1154.10		675.00	
428.00	21.60		3324.00	1236.60		764.00	

(17)	(18)	(19)		(20)		(21)	(22)
Total Direct Tax	Labour Share of	Non-Labour Share		Total Indirect		Labour Share	Labour Share
on GLI and GNLI	Direct Taxes	of Direct Taxes		Taxes		of Consumption	of Indirect Taxes
(TDT)	(LSDT)	(NLSIT)		TINT		Expenditure	(LSIT)
(4)+(15)	(4)/(17)	(15)/(17)					(20)*(21)/100
194.20	0.27	0.73		99.60		60.68	60.44
229.00	0.28	0.72		111.20		58.26	64.79
287.80	0.25	0.75		142.00		58.99	83.77
296.40	0.30	0.70		134.00		62.31	83.50
311.40	0.30	0.70		135.00		62.12	83.86
342.20	0.29	0.71		161.40		62.10	100.23
354.00	0.29	0.71		170.60		63.27	107.94
376.00	0.33	0.67		168.20		63.71	107.16
348.40	0.27	0.73		182.00		63.42	115.42
448.00	0.30	0.70		208.00		65.23	135.68
424.60	0.34	0.66		217.00		67.95	147.45
498.80	0.30	0.70		226.00		63.28	143.01
539.10	0.31	0.69		231.00		65.12	150.43
511.50	0.34	0.66		228.00		65.95	150.37
550.80	0.32	0.68		254.00		66.87	169.85
640.00	0.32	0.68		276.00		68.98	190.38
702.10	0.34	0.66		289.00		68.23	197.18
765.00	0.35	0.65		301.00		71.51	215.25
779.40	0.36	0.64		316.00		70.69	223.38
807.20	0.38	0.62		343.00		72.40	248.33
903.00	0.38	0.62		377.00		74.66	281.47
1093.60	0.42	0.58		462.00		76.00	351.12
1299.70	0.47	0.53		537.00		78.23	420.10
1478.00	0.47	0.53		603.00		87.46	527.38
1874.70	0.47	0.53		687.00		93.23	640.49
2349.10	0.51	0.49		725.00		98.01	710.57
2564.60	0.52	0.48		871.00		95.75	833.98

(23)		(24)	(25)		(26)	(27)	(28)
Non-Labour Share		Total Taxes on	Total Taxes on		Labour After-Tax	Non-Labour After-	Non-Labour After-
of Indirect Taxes		Labour Income	Non-Labour Income		Income (LATI)	Tax Income (a)	Tax Income (b)
(NLSIT)		TTLI	TTNLI			(NLATI) (a)	(NLATI) (b)
(20)-(22)		(4)+(22)	(15)+(23)		(3)-(24)	(14)-(25)	(27)-(16)
39.16		113.44	180.36		386.36	314.84	244.84
46.41		129.79	210.41		426.61	489.59	411.59
58.23		155.77	274.03		499.43	352.97	266.97
50.50		171.50	258.90		523.90	393.30	297.30
51.14		176.66	269.74		591.34	466.66	356.66
61.17		200.23	303.37		661.17	475.03	349.03
62.66		212.34	312.26		723.86	476.54	338.54
61.04		230.16	314.04		759.24	509.36	365.36
66.58		208.42	321.98		859.58	596.02	438.02
72.32		269.68	386.32		846.32	503.68	337.68
69.55		293.45	348.15		887.55	613.85	445.85
82.99		291.01	433.79		985.99	636.21	451.21
80.57		318.43	451.67		1046.57	609.33	405.33
77.63		323.37	416.13		1121.63	745.87	526.87
84.15		346.85	457.95		1207.15	843.05	611.05
85.62		396.38	519.62		1326.62	843.38	594.38
91.82		433.18	557.92		1456.82	962.08	689.08
85.75		484.25	581.75		1556.75	913.25	613.25
92.62		506.38	589.02		1620.62	924.98	605.98
94.67		556.33	593.87		1683.67	1005.13	672.13
95.53		627.47	652.53		1865.53	1107.47	743.47
110.88		814.12	741.48		2189.88	1095.52	655.52
116.90		1029.10	807.60		2525.90	1298.40	833.40
75.62		1215.38	865.62		2777.62	1815.38	1300.38
46.51		1513.49	1048.21		3253.51	1908.79	1318.79
14.43		1905.57	1168.53		3772.43	1577.47	902.47
37.02		2161.98	1273.62		4314.02	2050.38	1286.38

	(29)	(30)		(31)	(32)	(33)	(34)
	Monetary Social	Govt. Exp. Accruing		General	Interest on General	Law and Order	Development of
	Security Benefits	to Labour Alone		Administration	Govt. Debt Paid		Prim. & Second.
	and Pensions	(GEALA)			Overseas		Industry
		(29)					
	84.40	84.40		18.60	5.40	3.60	9.80
	94.20	94.20		21.40	5.00	3.00	10.00
	106.00	106.00		26.40	5.00	3.40	10.60
	107.40	107.40		27.20	5.00	2.80	12.80
	115.40	115.40		27.40	5.00	3.20	13.20
	122.60	122.60		30.00	5.60	3.80	13.00
	128.80	128.80		30.40	6.60	4.00	14.20
	132.60	132.60		31.20	6.80	5.00	18.20
	139.40	139.40		30.00	7.40	6.40	19.00
	159.60	159.60		31.80	9.20	6.20	19.80
	190.20	190.20		32.00	11.20	6.80	20.60
	199.20	199.20		33.20	10.40	7.80	22.60
	207.00	207.00		39.40	10.20	7.60	23.00
	208.60	208.60		40.60	13.00	8.60	25.60
	220.80	220.80		42.40	14.00	9.20	26.60
	225.60	225.60		45.00	15.20	10.40	32.20
	234.80	234.80		52.00	15.20	10.60	35.40
	245.40	245.40		53.50	17.20	12.80	38.40
	263.00	263.00		53.00	21.60	13.40	40.00
	270.90	270.90		55.20	28.80	13.00	42.30
	292.40	292.40		63.20	30.80	16.30	49.10
	319.50	319.50		73.40	32.10	20.70	64.50
	361.40	361.40		93.50	36.30	26.60	64.20
	483.90	483.90		107.70	38.30	31.50	83.40
	590.30	590.30		130.70	34.10	39.10	98.90
	671.10	671.10		168.50	41.30	49.90	121.60
	839.60	839.60		199.10	68.80	64.60	151.20

(35)	(36)	(37)	(38)	(39)	(40)	
Defence & War	Interest on	Subsidies	Interest on	Net Transfers to	Govt. Exp. Accruing	
	General Govt. Debt		Local Authority	Rest of World	to Non-Labour	
	Paid in N.Z.		Debt Paid in N.Z.		Alone (GEANLA)	
					(31)+(32)+(33)+(34)+(35)	
					+(36)+(37)+(38)+(39)	
16.40	28.00	29.20	4.40		115.40	
21.20	29.60	18.80	4.40	2.00	115.40	
35.40	30.40	32.20	4.40	3.60	151.40	
51.40	29.60	30.00	4.60	3.00	166.40	
56.20	31.20	31.00	5.40	3.00	175.60	
47.20	34.40	26.80	6.00	4.00	170.80	
50.00	35.40	24.80	6.40	3.20	175.00	
52.20	38.80	26.60	8.00	4.20	191.00	
49.80	43.20	27.20	9.40	4.00	196.40	
51.40	45.40	27.00	11.40	4.20	206.40	
55.60	46.40	25.60	13.00	4.20	215.40	
56.80	49.70	30.60	15.30	4.00	230.40	
53.40	53.20	28.30	17.00	4.60	236.70	
54.20	58.70	29.40	18.60	4.20	252.90	
56.20	67.80	30.20	20.80	5.00	272.20	
72.20	72.00	35.30	22.90	4.80	310.00	
79.40	79.20	39.20	24.60	5.80	341.40	
86.20	88.70	39.20	27.00	6.30	369.30	
83.70	94.20	21.00	30.10	6.40	363.40	
95.90	103.60	18.90	32.30	6.60	396.60	
102.60	113.40	28.50	35.00	7.70	446.60	
122.80	120.90	51.60	37.50	9.30	532.80	
121.80	130.50	89.40	40.60	10.70	613.60	
135.50	146.50	100.70	44.00	15.10	702.70	
140.50	166.20	133.70	53.20	21.40	817.80	
165.50	179.70	131.80	52.90	34.70	945.90	
193.20	201.20	229.40	57.80	49.30	1214.60	

(41) Family Benefit Advances	(42) Health	(43) Education	(44) Non-Monetary Social Security Benefits	(45) Other Social Services	(46) Rehabilitation	(47) Maintenance of Public Works & Services	(48) Local Auth. Cost of Provision of Goods & Services
	6.80	22.00	17.00	1.20	4.20	8.00	28.80
	7.20	24.60	17.40	1.20	4.20	6.60	33.40
	8.60	29.20	18.80	1.80	3.00	10.00	37.60
	8.80	31.40	20.80	2.00	2.40	10.20	39.80
	9.40	34.60	21.20	2.60	1.60	8.60	45.40
	9.80	38.40	25.20	2.60	2.00	6.20	44.40
	10.80	42.40	31.00	2.80	2.00	7.20	50.20
	11.80	46.20	33.60	3.20	2.00	8.80	55.20
	47.40	51.40		3.20	1.60	6.60	64.60
	51.40	55.80		3.20	1.60	5.80	66.20
7.80	55.20	59.80		3.60	1.60	4.60	72.60
13.80	58.20	67.20		4.00	2.40	4.00	79.00
11.20	63.40	71.00		4.00	1.60	6.80	82.80
10.00	67.40	78.80		4.60	1.60	7.80	91.90
8.60	70.20	87.00		4.60	1.60	8.40	96.40
8.00	58.80	99.00		5.20	1.40	7.40	112.90
7.40	64.20	110.40		4.60	1.40	7.80	135.00
6.20	69.20	124.40		3.40	1.30	12.00	146.90
6.10	73.30	136.80		5.20	1.20	14.20	155.30
6.60	77.70	145.60		7.00	1.10	18.20	164.70
6.00	86.80	168.40		4.90	1.10	16.10	181.60
8.50	103.70	214.90		5.80	1.00	18.90	202.80
4.50	114.00	279.60		7.80	0.90	21.50	270.70
3.60	103.00	309.10		20.30	0.80	41.10	269.60
3.30	120.50	367.20		24.40	0.80	43.70	356.00
4.10	151.90	432.60		27.00	0.90	56.70	461.50
6.80	187.90	499.30		44.70		66.50	557.80

(49)	(50)		(51)	(52)	(53)		(54)
Transfers	Govt. Exp. Shared		Lab. Share of	Labour Portion	Labour Portion		Total Govt.
to Local	Between Lab. &		Direct Taxes	of Shared Govt.	of Total Govt. Exp.		Expenditure
Authorities	Non-Lab. (SGE)			Exp. (LPSGE)	(LPTGE)		(TGE)
	(41)+(42)+(43)+(44)+(45)		(18)	(50)*(51)	(52)+(30)		(30)+(40)+(50)
	+(46)+(47)+(48)+(49)						
15.20	103.20		0.27	27.86	112.26		303.00
16.00	110.60		0.28	30.97	125.17		320.20
21.00	130.00		0.25	32.50	138.50		387.40
24.20	139.60		0.30	41.88	149.28		413.40
26.40	149.80		0.30	44.94	160.34		440.80
32.60	161.20		0.29	46.75	169.35		454.60
33.80	180.20		0.29	52.26	181.06		484.00
39.80	200.60		0.33	66.20	198.80		524.20
53.00	227.80		0.27	61.51	200.91		563.60
55.60	239.60		0.30	71.88	231.48		605.60
60.20	265.40		0.34	90.24	280.44		671.00
67.80	296.40		0.30	88.92	288.12		726.00
70.40	311.20		0.31	96.47	303.47		754.90
78.20	340.30		0.34	115.70	324.30		801.80
84.80	361.60		0.32	115.71	336.51		854.60
109.60	402.30		0.32	128.74	354.34		937.90
124.60	455.40		0.34	154.84	389.64		1031.60
131.40	494.80		0.35	173.18	418.58		1109.50
133.40	525.50		0.36	189.18	452.18		1151.90
140.40	561.30		0.38	213.29	484.19		1228.80
155.20	620.10		0.38	235.64	528.04		1359.10
179.00	734.60		0.42	308.53	628.03		1586.90
217.00	916.00		0.47	430.52	791.92		1891.00
287.00	1034.50		0.47	486.22	970.12		2221.10
329.70	1245.60		0.47	585.43	1175.73		2653.70
398.20	1532.90		0.51	781.78	1452.88		3149.90
490.40	1853.40		0.52	963.77	1803.37		3907.60

	(55)	(56)	
	Net-Tax	Transfer Ratio	
	(24)-(53)	(24)/(53)	
	1.18	1.01	
	4.62	1.04	
	17.27	1.12	
	22.22	1.15	
	16.32	1.10	
	30.88	1.18	
	31.28	1.17	
	31.36	1.16	
	7.51	1.04	
	38.20	1.17	
	13.01	1.05	
	2.89	1.01	
	14.96	1.05	
	-0.93	1.00	
	10.34	1.03	
	42.04	1.12	
	43.54	1.11	
	65.67	1.16	
	54.20	1.12	
	72.14	1.15	
	99.43	1.19	
	186.09	1.30	
	237.18	1.30	
	245.26	1.25	
	337.76	1.29	
	452.69	1.31	
	358.61	1.20	

Appendix Two: Tables of Data

All graphs are numbered according to their order of appearance within each chapter in the body of this thesis. Each table in this appendix contains the data presented in the graph which has the same number in the text. The source of data for each graph is identified at the bottom of each table. It will be noted that most of the sources of data are themselves columns of the spreadsheet in Appendix One in which 'net-tax' is estimated. Where this is the case, the source of data is not replicated; instead the column number is simply listed. The source of data for each column can be easily located by referring back to Appendix One. The only exceptions to this method of presentation are three graphs which were not generated in this study, having merely been reproduced directly from the following source: G. Pearce, Where is New Zealand Going? They are: Graph 4:6 (Pearce, p.141); Graph 4:10 (Pearce, p.236); and Graph 4:11 (Pearce, p.236).

Table 3:1 Constituent Components of Total Direct Taxes

Year	Pers. Inc. Tax	Comp. Inc. Tax	Land	Est./Gift Duty	Rates
1950	52.88	29.71	1.02	5.87	10.50
1951	54.66	28.40	0.87	6.36	9.68
1952	56.66	27.84	0.76	5.62	9.02
1953	56.37	27.52	0.87	5.93	9.37
1954	57.58	26.28	1.02	5.59	9.51
1955	57.69	26.81	0.58	5.49	9.47
1956	57.00	28.07	0.67	4.80	9.43
1957	58.43	26.51	0.74	4.41	9.89
1958	53.17	29.26	0.74	5.14	11.67
1959	61.49	23.47	0.62	4.65	9.70
1960	57.56	25.12	0.70	5.78	10.76
1961	58.02	24.82	0.72	6.68	9.73
1962	57.65	27.25	0.74	4.83	9.51
1963	56.75	27.80	0.46	4.21	10.81
1964	55.62	29.06	0.41	3.90	11.00
1965	55.31	30.31	0.40	3.20	10.75
1966	56.63	29.71	0.45	3.17	10.01
1967	57.01	29.64	0.45	2.93	9.95
1968	56.79	29.48	0.56	2.74	10.41
1969	58.99	26.74	0.33	2.92	10.98
1970	59.89	26.33	0.32	2.88	10.56
1971	61.62	25.95	0.28	2.67	9.47
1972	66.43	22.86	0.29	1.90	8.49
1973	68.72	20.21	0.23	1.92	8.90
1974	69.82	20.68	0.17	1.80	7.50
1975	72.10	18.81	0.14	1.74	7.17
1976	72.93	16.72	0.13	2.11	8.08
1977	73.12	16.95	0.21	1.74	7.82
1978	75.25	15.51	0.22	1.26	7.74
1979	78.63	11.23	0.22	1.30	8.60

Source: New Zealand Planning Council, Public Expenditure and Its Financing 1950-79. June 1979, Table 9.

Table 3:2 Labour Share of Consumption Expenditure

Year	Lab. Share Cons. Exp.
1949	60.680
1950	58.260
1951	58.990
1952	62.310
1953	62.120
1954	62.100
1955	63.270
1956	63.710
1957	63.420
1958	65.230
1959	67.950
1960	63.280
1961	65.120
1962	65.950
1963	66.870
1964	68.980
1965	68.230
1966	71.510
1967	70.690
1968	72.400
1969	74.660
1970	76.000
1971	78.230
1972	87.460
1973	93.230
1974	98.010
1975	95.750

Source: Appendix One, Column 21.

Table 3:3 Labour Share of Indirect Taxes as Percentage of Total Taxes on Labour Income

Year	(1) LSIT	(2) TTLI	(1)/(2)*100
1949	60.440	113.440	53.280
1950	64.790	129.790	49.920
1951	83.770	155.770	53.780
1952	83.500	171.500	48.690
1953	83.860	176.660	47.470
1954	100.230	200.230	50.060
1955	107.940	212.340	50.830
1956	107.160	230.160	46.560
1957	115.420	208.420	55.380
1958	135.680	269.680	50.310
1959	147.450	293.450	50.250
1960	143.010	291.010	49.140
1961	150.430	318.430	47.240
1962	150.370	323.370	46.500
1963	169.850	346.850	48.970
1964	190.380	396.380	48.030
1965	197.180	433.180	45.600
1966	215.250	484.250	44.450
1967	223.380	506.380	44.110
1968	248.330	556.330	44.640
1969	281.470	627.470	44.860
1970	351.120	814.120	43.130
1971	420.100	1029.100	40.820
1972	527.380	1215.380	43.390
1973	640.490	1513.490	42.320
1974	710.570	1905.570	37.290
1975	833.980	2161.980	38.570

Source: Appendix One, Column 22 (LSIT) and Column 24 (TTLI).

Table 3:4 Labour Share of Direct Tax

Year	Lab. Share Dir. Tax
1949	27.00
1950	28.00
1951	25.00
1952	30.00
1953	30.00
1954	29.00
1955	29.00
1956	33.00
1957	27.00
1958	30.00
1959	34.00
1960	30.00
1961	31.00
1962	34.00
1963	32.00
1964	32.00
1965	34.00
1966	35.00
1967	36.00
1968	38.00
1969	38.00
1970	42.00
1971	47.00
1972	47.00
1973	47.00
1974	51.00
1975	52.00

Source: Appendix One, Column 18.

Table 4:1 Transfer Ratio

Year	Transfer Ratio
1949	1.010
1950	1.040
1951	1.120
1952	1.150
1953	1.100
1954	1.180
1955	1.170
1956	1.160
1957	1.040
1958	1.170
1959	1.050
1960	1.010
1961	1.050
1962	1.000
1963	1.030
1964	1.120
1965	1.110
1966	1.160
1967	1.120
1968	1.150
1969	1.190
1970	1.300
1971	1.300
1972	1.250
1973	1.290
1974	1.310
1975	1.200

Source: Appendix One, Column 56.

Table 4:2 Net-tax

Year	Net-tax
1949	1.180
1950	4.620
1951	17.270
1952	22.220
1953	16.320
1954	30.880
1955	31.280
1956	31.360
1957	7.510
1958	38.200
1959	13.010
1960	2.890
1961	14.960
1962	-0.930
1963	10.340
1964	42.040
1965	43.540
1966	65.670
1967	54.200
1968	72.140
1969	99.430
1970	186.090
1971	237.180
1972	245.260
1973	337.760
1974	452.690
1975	358.610

Source: Appendix One, Column 55.

Table 4:3 Transfer Ratio Percentage Change

Year	TR% Change
1950	2.970
1951	7.690
1952	2.680
1953	-4.350
1954	7.270
1955	-0.850
1956	-0.850
1957	-10.340
1958	12.500
1959	-10.250
1960	-3.800
1961	3.960
1962	-4.760
1963	3.000
1964	8.740
1965	-0.890
1966	4.500
1967	-3.450
1968	2.680
1969	3.480
1970	9.240
1971	0.000
1972	-3.850
1973	3.200
1974	1.550
1975	-8.400

Source: calculated from Appendix One, Column 56.

Table 4:4 TTLI and LPTGE (millions of constant 1975 dollars)

Year	TTLI:Const.75$	LPTGE:Const.75$
1949	437.480	434.240
1950	473.970	457.100
1951	512.280	455.490
1952	523.480	455.660
1953	515.880	468.230
1954	558.630	472.480
1955	577.890	492.760
1956	605.310	522.840
1957	536.650	517.310
1958	664.540	570.410
1959	696.670	665.780
1960	686.140	679.320
1961	737.640	702.990
1962	729.920	732.020
1963	767.310	744.430
1964	847.450	757.570
1965	896.050	805.990
1966	974.160	842.060
1967	960.810	857.970
1968	1012.040	880.810
1969	1087.400	915.090
1970	1324.770	1021.960
1971	1516.750	1167.180
1972	1675.710	1337.560
1973	1928.300	1497.970
1974	2185.780	1666.520
1975	2161.980	1803.370

Source: Appendix One, Column 24 (TTLI) and Column 53 (LPTGE).

Table 4:5 TTLI and LPTGE Percentage Change

Year	TTLI	%Change	LPTGE	%Change
1950			8.340	5.260
1951			8.080	-0.350
1952			2.190	0.040
1953			-1.450	2.760
1954			8.290	0.910
1955			3.450	4.290
1956			4.740	6.100
1957			-11.340	-1.060
1958			23.830	10.260
1959			4.830	16.720
1960			-1.510	2.030
1961			7.510	3.480
1962			-1.050	4.130
1963			5.120	1.700
1964			10.440	1.770
1965			5.730	6.390
1966			8.720	4.480
1967			-1.370	1.890
1968			5.330	2.660
1969			7.450	3.890
1970			21.830	11.680
1971			14.490	14.210
1972			10.480	14.600
1973			15.070	11.990
1974			13.350	11.250
1975			-1.090	8.210

Source: calculated from Appendix One, Column 24 (TTLI) and Column 53 (LPTGE).

Table 4:7 National Income at Market Price Percentage Change

Year	NIMP%Change
1949	10.960
1950	21.250
1951	-7.320
1952	-2.720
1953	5.820
1954	5.570
1955	3.030
1956	0.980
1957	4.710
1958	-0.390
1959	3.670
1960	6.740
1961	1.340
1962	4.570
1963	7.640
1964	5.770
1965	4.410
1966	0.820
1967	-2.160
1968	1.280
1969	5.110
1970	7.750
1971	6.310
1972	9.130
1973	6.780
1974	-2.100
1975	1.170

Source: G. Pearce, Where is New Zealand Going? Table 2:7.

Table 4:8 State's Share in the Economy

Year	(1) Tot. Public. Exp.	(2) GDP	(1)/(2) Public.Exp%GDP	(1)/[(2)-(1)]
1950	381.10	1107.00	0.34	0.53
1951	401.10	1408.00	0.28	0.40
1952	467.70	1459.00	0.32	0.47
1953	532.90	1528.00	0.35	0.54
1954	569.10	1690.00	0.34	0.51
1955	584.10	1877.00	0.31	0.45
1956	633.30	1979.00	0.32	0.47
1957	686.40	2078.00	0.33	0.49
1958	723.90	2225.00	0.33	0.48
1959	761.80	2321.00	0.33	0.49
1960	836.50	2482.00	0.34	0.51
1961	890.70	2687.00	0.33	0.50
1962	925.70	2783.00	0.33	0.50
1963	978.90	2999.00	0.33	0.48
1964	1056.40	3273.00	0.32	0.48
1965	1140.60	3589.00	0.32	0.47
1966	1249.80	3877.00	0.32	0.48
1967	1348.90	4039.00	0.33	0.50
1968	1387.60	4183.00	0.33	0.50
1969	1461.50	4436.00	0.33	0.49
1970	1586.10	4907.00	0.32	0.48
1971	1836.00	5609.00	0.33	0.49
1972	2171.00	6526.00	0.33	0.50
1973	2526.10	7617.00	0.33	0.50
1974	2909.00	8813.00	0.33	0.49
1975	3526.70	9578.00	0.37	0.58

Source: New Zealand Planning Council, Public Expenditure and Its Financing 1950-79. June 1979. Table 5.

Table 4:9 Welfare Expenditure as Percentage of GDP

Year	
1950	13.150
1951	11.490
1952	12.730
1953	12.990
1954	12.710
1955	12.250
1956	12.570
1957	12.810
1958	12.880
1959	13.580
1960	14.780
1961	14.830
1962	14.900
1963	14.480
1964	14.180
1965	13.810
1966	13.740
1967	14.140
1968	14.650
1969	14.460
1970	14.410
1971	14.860
1972	15.150
1973	15.940
1974	16.390
1975	17.790
1976	18.840
1977	18.680
1978	21.400
1979	22.680

Source: J. Martin, The Modern Welfare State and Expenditure in New Zealand. Table 9.

Table 4:12 Tonak's (Welfare-Adjusted) Transfer Ratio

Year	TR
1952	1.650
1953	1.600
1954	1.300
1955	1.340
1956	1.340
1957	1.280
1958	1.110
1959	1.170
1960	1.220
1961	1.120
1962	1.150
1963	1.180
1964	1.100
1965	1.080
1966	1.130
1967	1.090
1968	1.120
1969	1.180
1970	1.040
1971	0.940
1972	1.010
1973	1.020
1974	0.980
1975	0.840
1976	0.890
1977	0.940
1978	0.980
1979	1.020
1980	0.970

Source: E.A. Tonak, The U.S. Welfare State and the Working Class 1952-1980. Table 10.

Table 4:13 Freeman's Transfer Ratio

Year	TR
1969	0.880
1970	0.880
1971	0.900
1972	0.980
1973	0.990
1974	1.040
1975	0.970
1976	0.960
1977	0.910
1978	0.970
1979	0.970
1980	0.970
1981	0.960
1982	0.960
1983	0.940
1984	0.910

Source: A. Freeman, The Effect of the State on the Living Standards of Wage-earners in Britain 1969-1984. Table 2.1.

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